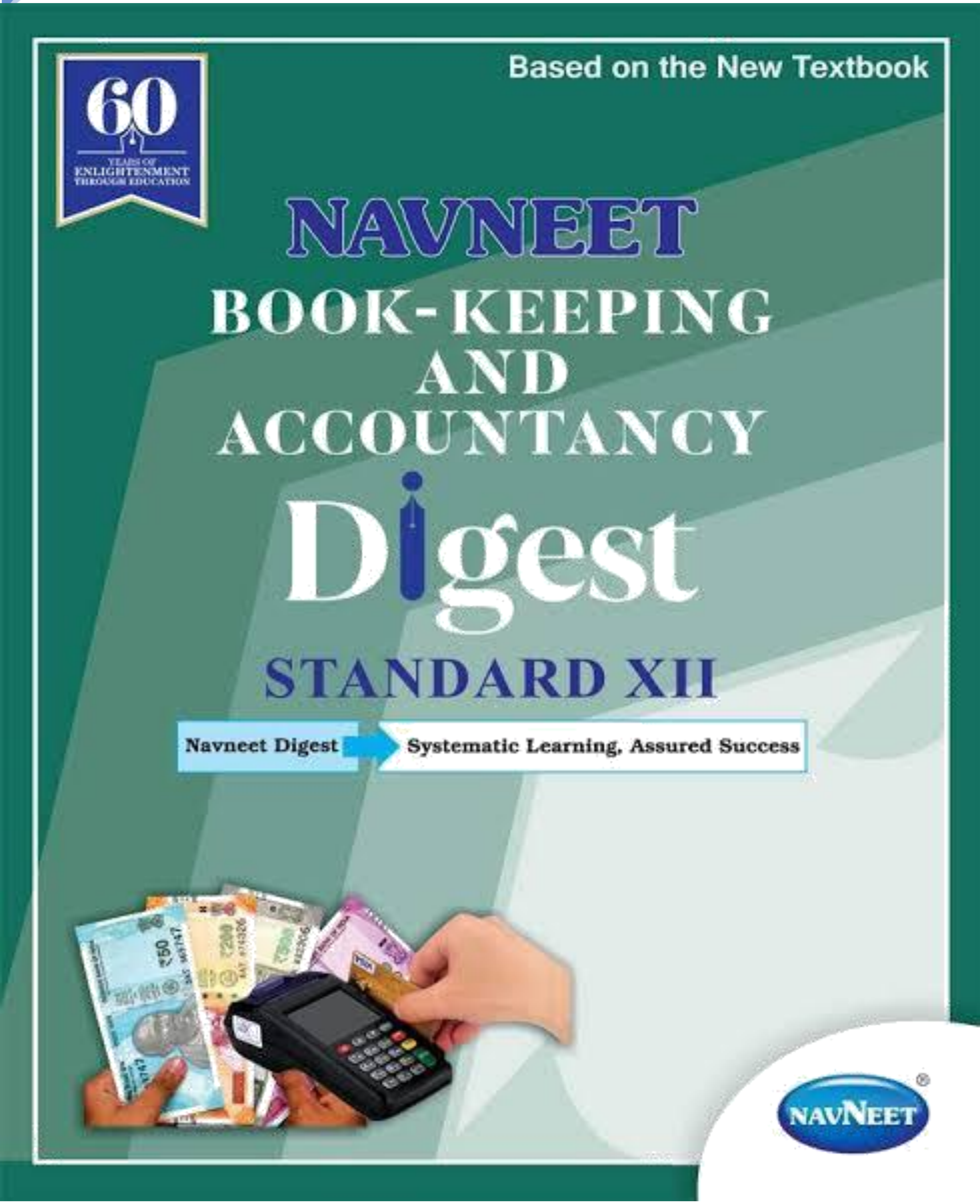

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1 INTRODUCTION TO PARTNERSHIP AND PARTNERSHIP FINAL ACCOUNTS

(A) INTRODUCTION TO PARTNERSHIP

SYLLABUS

- **1.1** Introduction, Meaning and Definition of Partnership
- **1.2** The Indian Partnership Act 1932
- **1.3** Methods of Capital Account

BRIEF OVERVIEW

1.1 Introduction, Meaning and Definition of Partnership :

Introduction : When development of single ownership firm takes place or when expansion of the business is planned then naturally, third party help is mandatory. The partnership firm is emerged from capital and managerial limitations of single ownership firms. Hence, when two or more persons, competent to enter into a contract, make an agreement, contribute required capital, undertake certain lawful business for earning profit and sharing the same in agreed proportion, then such union is termed as 'Partnership'.

The persons who have entered into partnership are individually known as 'Partner' and collectively known as a 'Firm'.

Meaning : Partnership is a business organization, where more than one person come together, make an agreement, contribute capital to carry on a lawful business with the primary objective of earning profit.

Definition : Section 4 of the Indian Partnership Act. 1932 defines a partnership as, *"The relation between persons who have agreed to share the profits of a business carried on by all or any one of them acting for all."*

Prof. Haney defines partnership as, *"The relation existing between persons competent to make contract who agree to carry on a lawful business in common with a view to earn private gain."*

Features of partnership firm : The main features of partnership firm are stated below :

(1) **Agreement :** Foundation of partnership is agreement. Agreement may be either in oral or in written form. Written form of agreement is advisable because it can be used as a proof in the court of law, in case of any future disputes. The written agreement is termed as partnership deed.

(2) **Number of partners :** Minimum two persons are required to form the partnership firm. According to the Companies Act 2013, maximum number of partners is fifty.

(3) **Lawful business :** The business undertaken by partnership, must be lawful. It cannot undertake illegal activities or business not permitted by law.

(4) **Sharing of profit and losses :** Main objective of partnership is to earn maximum profits, and distribute it among the partners in agreed proportion. Profit or loss is to be shared equally among the partners if the agreement is silent on ratio.

(5) **Unlimited liability :** The liability of all partners except minor partner is unlimited. The creditors can claim and recover their dues from the private property of partners, if business property is not sufficient to settle their claims. If any partner is declared insolvent, then his liability is to be borne by the solvent partner.

(6) **Registration :** According to the Indian Partnership Act 1932, registration of partnership firm

is optional. However, registration of partnership firm is made compulsory only in the state of Maharashtra. Registration means entering the name of partnership firm in the register maintained by the Registrar after the completion of required formalities.

(7) **Joint ownership and management :** Each partner is joint owner of the property of the firm. So any partner of the firm cannot use property of firm for personal use. Each partner has right to participate in the management of a firm, so all the partners are jointly responsible for all the activities of the firm.

(8) **Principal and Agent :** Partners carrying on business, works as a Principal and Agent. A partner act as a principal of the firm for business concerned persons or outsiders and act as a partner with other partners of a firm.

(9) **Dissolution :** Dissolution of firm means closure of business of the firm. Dissolution of partnership firm is simple and easy. Any one of the partners can take active part to dissolve the firm by giving fourteen days notice. Unless there is an agreement, partnership gets dissolved on death, retirement or insolvency of a partner.

- **Partnership Deed :** A partnership is contractual relationship. Agreement may be oral or written. An agreement which is written and signed by all the partners is called Partnership Deed. It contains terms and conditions of partnership and also rules relating to internal management of the firm.

  The usual contents of a partnership deed are : (1) Name and address, Telephone nos., e-mail address of the firm and its main business. (2) Name, addresses and other information of all partners and duration of the partnership. (3) The amount of capital contributed or to be contributed by each of the partners. (4) The profit and loss sharing ratio of the partners. (5) Rights, duties and liabilities of all partners. (6) Provisions for admission, retirement and death of partner. (7) Rate of interest on capital, loan and drawings, if any. (8) Salaries, commission, etc. payable to partners or any partner. (9) Procedure for dissolution of the firm and settlement of accounts after dissolution. (10) The methods of settlement of disputes among the partners. (11) Other terms and conditions relating to the conduct of business which are agreed by all the partners.

- **Importance of Partnership Deed :** As partnership deed contains all the terms and conditions of partnership and having bases of mutual relationship among the partners, it is known as a very important document. With the help of partnership deed, rights, duties and liabilities of all partners and firm can be regulated. To avoid any disputes in future, Partnership Deed duly signed by all the partners and registered under the Indian Partnership Act 1932 is always advisable.

1.2 The Indian Partnership Act 1932 :

At the time of commencement of partnership, partnership deed is prepared which contains all the required terms and conditions of Partnership. However, if there is no agreement, written or oral, and if partnership deed is silent about any issue among the partners, provisions of the Indian Partnership Act 1932, section 12 and 17 are made applicable. which are as follows :

(1) **Distribution of Profits :** In the absence of partnership deed or if partnership deed is silent about profit and loss ratio, profits or losses are to be shared equally among the partners.

(2) **Interest on Drawings :** As per the provisions of the Indian Partnership Act 1932, no interest is to be charged on drawings made by the partners. If provisions are made in the partnership deed in respect to payment of interest on drawings, then interest on drawings is charged. If the date of withdrawal of money is not given, then interest on drawings is charged for **average period of**

6 months.

(3) **Interest on Partner's Loan :** As per the provisions of the Indian Partnership Act, 1932, if any partner has advanced loan to the firm over and above his capital contribution, such a loan is to carry interest @ 6 % per annum. However, if any provision is made in the partnership deed in respect to payment of interest on loan given by a partner to partnership, then interest is paid on such loan at the specified rate.

(4) **Interest on Capital :** As per the provisions of the Indian Partnership Act, 1932 no partner is entitled to receive any interest on his capital contribution. However, if provisions are made in the partnership deed in respect to payment of interest on capital, then partners are entitled to receive interest on their capital contributions as per the rate of interest mentioned in the agreement.

(5) **Salary or Commission to Partners :** As per the provisions made in the Indian Partnership Act, 1932, no salary, commission, allowance or any remuneration is to be given to any of the partners for any extra work done by partners for the firm. However, if any provision is made in partnership deed, then partners are entitled to get commission or salary as per the agreement.

(6) **Admission of a new Partner :** As per the provisions of the Indian Partnership Act, 1932, no outside person can be admitted into the firm as a partner without the consent of all partners.

1.3 Methods of Capital Accounts :

Amount in cash or in kind brought in by the partner to manage business activities is called Capital. The capital contribution may be in the form of cash or in the form of assets other than cash, e.g. Goods, Machinery, Land, Buildings, Furniture, etc. An amount of capital may be either in their profit sharing ratio or in equal ratio. Such amount of capital may be in any proportion as per the mutual understanding of the partners. There are two methods of maintaining the capital accounts of the partners, viz. (1) Fixed Capital Method and (2) Fluctuating Capital Method.

The Indian Partnership Act, 1932 is silent on the point of adoption of specific method of capital by the Partnership firm. The partners themselves may decide which method of capital is to be followed and mention the method of capital adopted in the partnership deed. If partnership deed is silent on this point, then the partnership firm has to adopt Fluctuating Capital Method.

1.3.1 Fixed Capital Method : Under this capital method opening balance of capital of a partner remains same upto at the end of that financial year. These capital balances will change only when partner introduces an additional capital or withdraws a part of his capital from the firm. Under Fixed Capital Method, along with capital account, a separate personal account, called **Current Account** is also opened and operated for every partner to record other dealings of partner with the partnership firm.

(i) **Partner's Capital Account :** In this account the entries for the following transactions are recorded :

(1) Amount contributed by the partner in the beginning or opening balance of capital if the partnership firm is already established its business.

(2) Additional capital if any introduced by the partner during the accounting year.

(3) Part of the capital withdrawn by the partner during the accounting year.

Usually Partner's Capital Account shows credit balance and it is shown on the Liabilities side of Balance Sheet.

- **Pro forma of Partners' Capital Accounts :** The pro forma of Partners' Capital Accounts prepared under Fixed Capital Method is shown below : It is assumed that there are two partners, viz. X and Y.

Dr. **Partners' Capital Accounts** **Cr.**

Particulars	X (₹)	Y (₹)	Particulars	X (₹)	Y (₹)
To Cash/Bank A/c	XXX	XXX	By Balance b/d	XXX	XXX
(Withdrawal of capital, if any)			By Cash/Bank A/c	XXX	XXX
To Balance c/d	XXX	XXX	(Additional capital introduced)		
			By Assets A/c	XXX	XXX
	XXX	XXX		XXX	XXX
			By Balance b/d	XXX	XXX

- **Journal Entries :**

(1) When cash is brought in the firm by the partner as additional capital :

Cash/Bank A/c .... Dr. XXX
To Partner's Capital A/c XXX
(Being cash contributed by the partner as additional capital)

(2) When additional capital is introduced in the firm by the partner in the form of Assets :

Assets A/c .... Dr. XXX
To Partner's Capital A/c XXX
(Being additional capital brought in by the partner in the form of Assets)

(3) When part of the capital is withdrawn by the partner :

Partner's Capital A/c .... Dr. XXX
To Cash/Bank A/c XXX
(Being part of the the capital withdrawn by the partner in cash)

(ii) Partners' Current Accounts : If Fixed Capital Method is adopted by the firm, then Current Account for each partner is opened and operated. In Current Account, following transactions are recorded :

(1) Drawings (if any) made by the partner in the current accounting year.
(2) Cash or goods or any other asset taken over by the partner.
(3) Interest on Partners' Capital allowed by the firm.
(4) Interest on Partner's Drawings charged by the firm.
(5) Salary, commission, rent, interest on loan, allowance, etc. payable to the partner.
(6) Distribution of net profit or net loss of the firm.

- **Pro forma of Partners' Current Accounts :** The pro forma of Partners' Current Accounts prepared under Fixed Method is shown below : *In the following pro forma ledger accounts, it is assumed that X's Current A/c showed a credit balance and Y's Current A/c showed a debit balance at the beginning of the year.*

Dr. **Partners' Current Accounts** **Cr.**

Particulars	X (₹)	Y (₹)	Particulars	X (₹)	Y (₹)
To Balance b/d	—	XXX	By Balance b/d	XXX	—
(Opening debit balance)			(Opening credit balance)		
To Drawings A/c	XXX	XXX	By Interest on Capital A/c	XXX	XXX
To Interest on Drawings A/c	XXX	XXX	By Salary to Partner A/c	XXX	XXX
To Profit and Loss A/c	XXX	XXX	By Commission to Partner A/c	XXX	XXX
(Adjustment of loss)			By Profit and Loss A/c	XXX	XXX
To Balance c/d	XXX	—	(Share of profit)		
(If credit balance)			By Balance c/d (If debit balance)	—	XXX
	XXX	XXX		XXX	XXX
To Balance b/d	—	XXX	By Balance b/d	XXX	—

- **Journal Entries :**

(1) Interest allowed on Partners' capital :

(a) Interest on Capital A/c .... Dr. XXX
To Partners' Current A/cs XXX
(Being interest on capital credited to Partners' Current A/cs)

(b) Profit and Loss A/c .... Dr. XXX
To Interest on Capital A/c XXX
(Being interest on capital transferred to Profit and Loss A/c)

(2) Salary/Commission allowed to Partners :

(a) Salary/Commission to Partners A/c .... Dr. XXX
To Partners' Current A/cs XXX
(Being salary/commission credited to Partners' Current A/cs)

(b) Profit and Loss A/c .... Dr. XXX
To Salary/Commission to Partner A/c XXX
(Being Salary/Commission transferred to Profit and Loss A/c)

(3) Cash/Goods withdrawn by the partners from the business for their personal use :

(a) Drawings A/c .... Dr. XXX
To Cash/Goods A/c XXX
(Being Cash/Goods taken over by the partners for personal use)

(b) Partners' Current A/cs .... Dr. XXX
To Drawings A/c XXX
(Being balance in Drawings A/c transferred to Partners' Current A/cs)

(4) Interest charged on Partners' Drawings :

(a) Partners' Current A/cs .... Dr. XXX
To Interest on Drawings A/c XXX
(Being interest on drawing debited to Partners' Current A/cs)

(b) Interest on Drawings A/c	Dr.	XXX	
To Profit and Loss A/c			XXX
(Being interest on drawings transferred to Profit and Loss A/c)			

(5) Division or distribution of net divisible profit or loss :

(a) Transfer of net divisible profit to Partners' Current Accounts :

Profit and Loss A/c	Dr.	XXX	
To Partners' Current A/cs			XXX
(Being net divisible profit transferred to Partners' Current Accounts)			

(b) Adjustment of net adjustable loss :

Partners' Current A/cs	Dr.	XXX	
To Profit and Loss A/c			XXX
(Being net adjustable loss adjusted to Partners' Current Accounts)			

Partners' Current Accounts may either show debit balance or credit balance. Credit balances of Partners' Current Accounts are transferred to Liabilities side of Balance Sheet. Similarly, debit balances of Partners' Current Accounts are transferred to Assets side of Balance Sheet.

Effects of above entries in Profit and Loss A/c is as follow :

- **Pro forma of Profit and Loss Account :**

Dr. **Profit and Loss Accounts** **Cr.**

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Gross Loss b/d : (If any)		XXX	By Gross Profit b/d		XXX
To Interest on Capital A/c :			By Interest on Drawings A/c		XXX
X	XXX		By Partners' Capital A/cs		
Y	XXX	XXX	Current A/cs		
To Salary to Partner A/c :			(Adjustment of net loss)		
X	XXX		X	XXX	
Y	XXX	XXX	Y	XXX	XXX
To Commission to Partner A/c :					
X	XXX				
Y	XXX	XXX			
To Partners' Capital A/cs/Current A/cs : (Share in net divisible profit)					
X	XXX				
Y	XXX	XXX			
		XXX			XXX

1.3.2 Fluctuating Capital Method : In the Fluctuating Capital method, balances on capital accounts changes every year. Under this method, to record partners dealings with partnership firm, only one account 'Capital Account' is opened and following transactions are recorded in it :

(1) Initial or opening balances of capital
(2) Additional capital brought in by partners in form of cash or its kind (Assets)
(3) Salary/Commission payable to partners
(4) Interest payable on capital balance to partners
(5) Drawings made during the year and interest payable on drawings by the partners
(6) Withdrawal of part of the capital by the partners
(7) Division and transfer of net divisible profit or net adjustable loss of the firm.

The credit balances of fluctuating capital accounts of the partners are recorded separately on the Liabilities side of the Balance Sheet.

Pro forma under Fluctuating Capital Method :

Dr. **Partners' Capital Accounts** **Cr.**

Particulars	X (₹)	Y (₹)	Particulars	X (₹)	Y (₹)
To Balance b/d	XXX	XXX	By Balance b/d	XXX	XXX
[Opening debit balance (If any)]			(Opening credit balance)		
To Cash/Bank A/c	XXX	XXX	By Cash/Bank A/c	XXX	XXX
(Withdrawal of capital)			(Additional capital		
To Drawings A/c	XXX	XXX	introduced)		
To Interest on Drawings A/c	XXX	XXX	By Interest on Capital A/c	XXX	XXX
To Profit and Loss A/c	XXX	XXX	By Partner's Salary A/c	XXX	XXX
(Adjustment of loss)			By Partner's Commission A/c	XXX	XXX
To Balance c/d	XXX	XXX	By Profit and Loss A/c	XXX	XXX
			(Share of profit)		
	XXX	XXX		XXX	XXX
			By Balance b/d	XXX	XXX

PROBLEMS WITH SOLUTION

1. Zalak and Parth are partners of a business sharing profits and losses in the ratio of 3 : 2. On 1 – 4 – 2019, the capital balances of partners are ₹ 1,00,000 and ₹ 60,000 and their drawings are ₹ 20,000 and ₹ 15,000 respectively. As per the agreement partners are allowed 10 % interest on capital and interest on drawings is to be charged at 12 % p.a. Zalak is entitled to get commission @ 4 % on net sales which is ₹ 6,00,000 and Parth is to get a salary of ₹ 3,000 per month. Net divisible profit of the firm is ₹ 1,20,000.

Prepare Partner's Capital Account for the year ended on 31st March, 2020 under (i) Fixed Capital Method and (ii) Fluctuating Capital Method.

Solution :

In the books of Zalak and Parth

(i) Fixed Capital Method

Dr. **Partners' Capital Accounts** **Cr.**

Particulars	Zalak (₹)	Parth (₹)	Particulars	Zalak (₹)	Parth (₹)
To Balance c/d	1,00,000	60,000	By Balance b/d	1,00,000	60,000
	1,00,000	60,000		1,00,000	60,000
			By Balance b/d	1,00,000	60,000

Dr. **Partners' Current Accounts** **Cr.**

Particulars	Zalak (₹)	Parth (₹)	Particulars	Zalak (₹)	Parth (₹)
To Drawings A/c	20,000	15,000	By Interest on Capital A/c	10,000	6,000
To Interest on Drawings A/c	1,200	900	By Salary A/c	—	36,000
			By Commission A/c	24,000	—
To Balance c/d	84,800	74,100	By Profit and Loss A/c	72,000	48,000
			(Share in divisible profit)		
	1,06,000	90,000		1,06,000	90,000
			By Balance b/d	84,800	74,100

(ii) Fluctuating Capital Method

Dr. **Partners' Capital Accounts** **Cr.**

Particulars	Zalak (₹)	Parth (₹)	Particulars	Zalak (₹)	Parth (₹)
To Drawings A/c	20,000	15,000	By Balance b/d	1,00,000	60,000
To Interest on drawings A/c	1,200	900	By Interest on Capital A/c	10,000	6,000
			By Salary A/c	—	36,000
To Balance c/d	1,84,800	1,34,100	By Commission A/c	24,000	—
			By Profit and Loss A/c	72,000	48,000
			(Share in divisible profit)		
	2,06,000	1,50,000		2,06,000	1,50,000
			By Balance b/d	1,84,800	1,34,100

Working Notes :

(1) Interest on capital = Amt. of capital × Period × Rate of interest

$$\text{Interest on Zalak's capital} = 1{,}00{,}000 \times 1 \times \frac{10}{100} = ₹\ 10{,}000$$

$$\text{Interest on Parth's capital} = 60{,}000 \times 1 \times \frac{10}{100} = ₹\ 6{,}000$$

(2) Interest on drawings = Amt. of drawings × Period × Rate of interest

$$\text{Interest on Zalak's drawings} = 20{,}000 \times \frac{6}{12} \times \frac{12}{100} = ₹\ 1{,}200$$

Interest on Parth's drawings $= 15{,}000 \times \frac{6}{12} \times \frac{12}{100} = ₹\ 900$

(As dates of drawings are not given, calculation of interest is taken for 6 months period.)

(3) Commission payable to Zalak = 4 % on net sales

$$= \frac{4}{100} \times 6{,}00{,}000 = ₹\ 24{,}000$$

(4) Salary payable to Parth $= 3{,}000 \times 12 = ₹\ 36{,}000$

(5) Division of Net divisible profit of ₹ 1,20,000 in 3 : 2

Zalak's share in profit $= 1{,}20{,}000 \times \frac{3}{5} = ₹\ 72{,}000$

Parth's share in profit $= 1{,}20{,}000 \times \frac{2}{5} = ₹\ 48{,}000$

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2. Kalpana and Bela are partners sharing profits and losses in the ratio of 2 : 3. On 1st April, 2019, their initial contributions in the business were : Kalpana ₹ 4,00,000, Bela : ₹ 3,00,000. During the accounting year their drawings were ₹ 30,000 and ₹ 25,000 respectively. Interest on capital is allowed @ 12 % and interest on drawings is to be charged @ 10 %. Kalpana is entitled to receive salary, ₹ 2,800 per month, and Bela is entitled to get commission @ 5 % on net sales. During the year net sales of the firm is ₹ 5,00,000 and net divisible profit of the firm is ₹ 90,000.

Prepare Capital Accounts of Partners under : (i) Fixed Capital Method (ii) Fluctuating Capital Method.

Solution : **In the books of Kalpana and Bela**

(i) Fixed Capital Method

Dr. **Partners' Capital Accounts** **Cr.**

Particulars	Kalpana (₹)	Bela (₹)	Particulars	Kalpana (₹)	Bela (₹)
To Balance c/d	4,00,000	3,00,000	By Cash/Bank A/c	4,00,000	3,00,000
	4,00,000	3,00,000		4,00,000	3,00,000
			By Balance b/d	4,00,000	3,00,000

Dr. **Partners' Current Accounts** **Cr.**

Particulars	Kalpana (₹)	Bela (₹)	Particulars	Kalpana (₹)	Bela (₹)
To Drawings A/c	30,000	25,000	By Interest on Capital A/c	48,000	36,000
To Interest on Drawings A/c	1,500	1,250	By Salary A/c	33,600	—
			By Commission A/c	—	25,000
To Balance c/d	86,100	88,750	By Profit and Loss A/c (Share in divisible profit)	36,000	54,000
	1,17,600	1,15,000		1,17,600	1,15,000
			By Balance b/d	86,100	88,750

(ii) Fluctuating Capital Method

Dr. **Partners' Capital Accounts** **Cr.**

Particulars	Kalpana (₹)	Bela (₹)	Particulars	Kalpana (₹)	Bela (₹)
To Drawings A/c	30,000	25,000	By Cash/Bank A/c	4,00,000	3,00,000
To Interest on Drawings A/c	1,500	1,250	By Interest on Capital A/c	48,000	36,000
			By Salary A/c	33,600	—
To Balance c/d	4,86,100	3,88,750	By Commission A/c	—	25,000
			By Profit and Loss A/c (Share in divisible profit)	36,000	54,000
	5,17,600	4,15,000		5,17,600	4,15,000
			By Balance b/d	4,86,100	3,88,750

Working Notes :

(1) Interest on capital = Amt. of capital × Period × Rate of interest

$$\text{Interest on Kalpana's capital} = 4{,}00{,}000 \times 1 \times \frac{12}{100} = ₹\ 48{,}000$$

$$\text{Interest on Bela's capital} = 3{,}00{,}000 \times 1 \times \frac{12}{100} = ₹\ 36{,}000$$

(2) Interest on drawings = Amt. of drawings × Period × Rate of interest

$$\text{Interest on Kalpana's drawings} = 30{,}000 \times \frac{6}{12} \times \frac{10}{100} = ₹\ 1{,}500$$

$$\text{Interest on Bela's drawings} = 25{,}000 \times \frac{6}{12} \times \frac{10}{100} = ₹\ 1{,}250$$

(As dates of drawings are not mention, calculation of interest is taken for 6 months period)

(3) Salary payable to Kalpana = 2,800 × 12 = ₹ 33,600

(4) Commission payable to Bela = 5 % on net sales

$$= \frac{5}{100} \times 5{,}00{,}000 = ₹\ 25{,}000$$

(5) Division of net divisible profit of ₹ 90,000 in 2 : 3

$$\text{Kalpana's share in profit} = 90{,}000 \times \frac{2}{5} = ₹\ 36{,}000$$

$$\text{Bela's share in profit} = 90{,}000 \times \frac{3}{5} = ₹\ 54{,}000$$

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3. Prihaan and Kahaan are partners in M/s P. K. Stores. They started their business on 1st October, 2019 on which they contribute ₹ 7,50,000 and ₹ 4,50,000 respectively. On 1st January, 2020 Prihaan gave computer and printer worth ₹ 50,000 to the firm and on the same day Kahaan gave furniture of ₹ 40,000 to the firm. On 1st January, 2020 Prihaan and Kahaan had withdrawn ₹ 25,000 and ₹ 30,000 respectively from business for their personal use. As per partnership deed, interest on capital is allowed @12 % p.a. and interest on drawings is to be charged @ 10 % p.a. Prihaan is to receive salary of ₹ 3,200 per month from 1st Nov., 2019 and Kahaan is to get commission @ 5 % on net sales which is ₹ 3,00,000. Net divisible profit of the firm is ₹ 75,000. Accounting year closes on 31st March every year. Prepare Partners' Capital Accounts under : (i) Fixed Capital Method and (ii) Fluctuating Capital Method.

Solution :

In the books of M/s P. K. Stores

(i) Fixed Capital Method

Dr. **Partners' Capital Accounts** **Cr.**

Particulars	Prihaan (₹)	Kahaan (₹)	Particulars	Prihaan (₹)	Kahaan (₹)
To Balance c/d	8,00,000	4,90,000	By Cash / Bank A/c	7,50,000	4,50,000
			By Computer and Printer A/c	50,000	—
			By Furniture A/c	—	40,000
	8,00,000	4,90,000		8,00,000	4,90,000
			By Balance b/d	8,00,000	4,90,000

Dr. **Partners' Current Accounts** **Cr.**

Particulars	Prihaan (₹)	Kahaan (₹)	Particulars	Prihaan (₹)	Kahaan (₹)
To Drawings A/c	25,000	30,000	By Interest on Capital A/c	46,500	28,200
To Interest on Drawings A/c	625	750	By Salary A/c	38,400	—
To Balance c/d	96,775	49,950	By Commission A/c	—	15,000
			By Profit and Loss A/c (Share in profit)	37,500	37,500
	1,22,400	80,700		1,22,400	80,700
			By Balance b/d	96,775	49,950

(ii) Fluctuating Capital Method

Dr. **Partners' Capital Accounts** **Cr.**

Particulars	Prihaan (₹)	Kahaan (₹)	Particulars	Prihaan (₹)	Kahaan (₹)
To Drawings A/c	25,000	30,000	By Cash/Bank A/c	7,50,000	4,50,000
To Interest on Drawings A/c	625	750	By Computer and Printer A/c	50,000	—
To Balance c/d	8,96,775	5,39,950	By Furniture A/c	—	40,000
			By Interest on Capital A/c	46,500	28,200
			By Salary A/c	38,400	—
			By Commission A/c	—	15,000
			By Profit and Loss A/c (Share in profit)	37,500	37,500
	9,22,400	5,70,700		9,22,400	5,70,700
			By Balance b/d	8,96,775	5,39,950

Working Notes :

(1) Interest on capital = Amt. of capital × Period × Rate of interest

Interest on Prihaan's capital $= 7,50,000 \times \frac{6}{12} \times \frac{12}{100} =$ ₹ 45,000 (on cash contribution)

$+\ 50,000 \times \frac{3}{12} \times \frac{12}{100} =$ ₹ 1,500 (on comp. and printer given)

$\therefore$ Total interest $= 45,000 + 1,500 =$ ₹ 46,500

Interest on Kahaan's capital $= 4{,}50{,}000 \times \frac{6}{12} \times \frac{12}{100} =$ ₹ 27,000 (on cash contribution)

$+ \; 40{,}000 \times \frac{3}{12} \times \frac{12}{100} =$ ₹ 1,200 (on furniture given)

∴ Total interest = 27,000 + 1,200 = ₹ 28,200

(2) Interest on drawings = Amt. Of drawings × Period × Rate of interest

Interest on Prihaan's drawings $= 25{,}000 \times \frac{3}{12} \times \frac{10}{100} =$ ₹ 625

Interest on Kahaan's drawings $= 30{,}000 \times \frac{3}{12} \times \frac{10}{100} =$ ₹ 750

(From 1st Jan. to 31st Mar.)

(3) Salary payable to Prihaan = 3,200 × 12 = ₹ 38,400

(4) Commission payable to Kahaan = 5 % on net sales

$= \frac{5}{100} \times 3{,}00{,}000 =$ ₹ 15,000

(5) Division of net divisible profit of ₹ 75,000 in 1 : 1.

[As profit sharing ratio is not given, net profit is divided equally.]

∴ Prihaan and Kahaan will get each ₹ 37,500 as profit. $\left[75{,}000 \times \frac{1}{2} = ₹\ 37{,}500\right]$.

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4. Ayaan and Aryan are partners of a firm with capital balances ₹ 8,00,000 and ₹ 4,00,000 respectively. They share profits and losses in the ratio 5 :1. Additional capital brought in by both the partners are ₹ 2,00,000 and ₹ 1,00,000 respectively on 1st October, 2019. Following transactions are to be recorded in Capital Accounts of Partners under : (i) Fixed Capital Method and (ii) Fluctuating Capital Method.

Particulars	Ayaan (₹)	Aryan (₹)
Interest on Capital	8 %	8 %
Drawing (During the year)	30,000	25,000
Interest on Drawings	6,800	1,500
Salaries	22,000	—
Commission	5,000	4,000
Share in Loss [For the year 2019 – 2020]	60,000	12,000

Solution : **In the books of Ayaan and Aryan**

(i) Fixed Capital Method

Dr. **Partners' Capital Accounts** **Cr.**

Particulars	Ayaan (₹)	Aryan (₹)	Particulars	Ayaan (₹)	Aryan (₹)
To Balance c/d	10,00,000	5,00,000	By Balance b/d	8,00,000	4,00,000
			By Cash/Bank A/c	2,00,000	1,00,000
	10,00,000	5,00,000		10,00,000	5,00,000
			By Balance b/d	10,00,000	5,00,000

Dr. **Partners' Current Accounts** **Cr.**

Particulars	Ayaan (₹)	Aryan (₹)	Particulars	Ayaan (₹)	Aryan (₹)
To Drawings A/c	30,000	25,000	By Interest on Capital A/c	72,000	36,000
To Interest on Drawings A/c	6,800	1,500	By Salary A/c	22,000	—
To Profit and Loss A/c (Share in loss)	60,000	12,000	By Commission A/c	5,000	4,000
To Balance c/d	2,200	1,500			
	99,000	40,000		99,000	40,000
			By Balance b/d	2,200	1,500

(ii) Fluctuating Capital Method

Dr. **Partners' Capital Accounts** **Cr.**

Particulars	Ayaan (₹)	Aryan (₹)	Particulars	Ayaan (₹)	Aryan (₹)
To Drawings A/c	30,000	25,000	By Balance b/d	8,00,000	4,00,000
To Interest on Drawings A/c	6,800	1,500	By Cash / Bank A/c	2,00,000	1,00,000
To Profit and Loss A/c (Share in loss)	60,000	12,000	By Interest on Capital A/c	72,000	36,000
			By Salary A/c	22,000	—
To Balance c/d	10,02,200	5,01,500	By Commission A/c	5,000	4,000
	10,99,000	5,40,000		10,99,000	5,40,000
			By Balance b/d	10,02,200	5,01,500

Working Note :

Interest on capital : Amt. of capital × Period × Rate of interest

$$\text{Ayaan's interest on capital} = 8{,}00{,}000 \times 1 \times \frac{8}{100} = ₹\ 64{,}000$$

$$+\ 2{,}00{,}000 \times \frac{6}{12} \times \frac{8}{100} = ₹\ \ 8{,}000$$

$$\text{Total interest} = ₹\ 72{,}000$$

$$\text{Aryan's interest on capital} = 4{,}00{,}000 \times 1 \times \frac{8}{100} = ₹\ 32{,}000$$

$$+\ 1{,}00{,}000 \times \frac{6}{12} \times \frac{8}{100} = ₹\ \ 4{,}000$$

$$\text{Total interest} = ₹\ 36{,}000$$

PROBLEMS FOR PRACTICE

1. Jayant and Paresh started a partnership business on 1st April, 2019. They contributed ₹ 1,60,000 and ₹ 1,20,000 respectively. The terms of the Partnership Agreement are as under : (i) Interest on capital is allowed @ 12 % p.a. and on drawings interest is charged @ 10 % p.a. (ii) Jayant and Paresh to get a monthly salary of ₹ 4,000 and ₹ 6,000 respectively. (iii) Share profits and losses in the ratio of their capital contribution. (iv) Paresh is to get commission @ 2 % on net sales which is ₹ 4,80,000.

The divisible net profit of the firm is ₹ 1,26,000. During the year, Jayant and Paresh had withdrawn ₹ 25,000 and ₹ 26,800 respectively for their personal use.

Prepare Partners' Capital Accounts for the year ended 31st March, 2020 under (i) Fixed Capital Method and (ii) Fluctuating Capital Method.

[**Ans.** **(i) Fixed Capital Method :** Closing balance in Capital A/c : Jayant = ₹ 1,60,000 and Paresh = ₹ 1,20,000; Closing credit balance in Current A/cs : Jayant = ₹ 1,12,950 and Paresh = ₹ 1,21,860. **(ii) Fluctuating Capital Method :** Balance in Capital A/cs : Jayant = ₹ 2,72,950 and Paresh = ₹ 2,41,860.]

2. Amit and Bhavna start a business on 1st April, 2019 and decide to share profits and losses in the ratio of 3 : 2 respectively. They contribute in cash ₹ 1,50,000 and ₹ 1,20,000 respectively as their initial capitals on 1st April, 2019.

Their drawings during the year are : Amit = ₹ 18,000 and Bhavna = ₹ 15,750. Interest on capitals is allowed @ 12 % p.a. and interest on drawings is to be charged @ 10 % p.a.

Amit is to get a salary of ₹ 1,875 per month and Bhavna is entitled to get commission @ 2 % on net sales which is ₹ 5,25,000. The net divisible profit is ₹ 1,45,500.

Prepare Partners' Capital Account for the year ended 31st March, 2019 under :

(i) Fixed Capital Method and (ii) Fluctuating Capital Method.

[**Ans.** **(i) Fixed Capital Method :** Closing balance in Capital A/c : Amit = ₹ 1,50,000 and Bhavna = ₹ 1,20,000; Closing Credit balance in Current A/c : Amit = ₹ 1,08,900 and Bhavna = ₹ 66,563. **(ii) Fluctuating Capital Method :** Closing balance in Capital A/c : Amit = ₹ 2,58,900 and Bhavna = ₹ 1,86,563.]

3. Neeta and Anita are partners sharing profits and losses in the ratio of 3 : 2 respectively. On 1st April, 2019 their initial contributions in the business were : Neeta = ₹ 2,00,000 and Anita = ₹ 1,00,000. During the accounting year their drawings were ₹ 15,000 and ₹ 10,000 respectively.

As per the provisions made in Partnership deed the rate of interest allowed on capital is @ 10 % p.a. and rate of interest charged on drawings is @ 12 % p.a. Neeta is entitled to receive salary ₹ 2,000 per month and Anita is entitled to get commission @ 2 % on gross profit. During the year, the partnership firm earns ₹ 1,20,000 as gross profit and ₹ 95,100 as net divisible profit.

Prepare Capital Accounts of Partners for the year ended 31st March, 2019 under (i) Fixed Capital Method and (ii) Fluctuating Capital Method.

[**Ans.** **(i) Fixed Capital Method :** Closing balance in Capital A/c : Neeta = ₹ 2,00,000 and Anita = ₹ 1,00,000; Closing Credit balance in Current A/c : Neeta = ₹ 85,160 and Anita = ₹ 39,840. **(ii) Fluctuating Capital Method :** Closing balance in Capital A/c : Neeta = ₹ 2,85,160 and Anita = ₹ 1,39,840.]

4. Parth and Pritam are partners in M/s P. P. Enterprises. They started their business on 1st July, 2019 on which they contribute ₹ 2,00,000 and ₹ 1,50,000 respectively. On 1st October, 2019, Parth supplied furniture costing ₹ 50,000 from his private sources for the firm and on the same day Pritam purchased Machinery costing ₹ 60,000 for the firm from his private sources. On 1st January, 2020, Parth and Pritam had withdrawn ₹ 12,000 and ₹ 10,000 respectively from the business for their personal use.

As per the provisions made in the Partnership deed interest on Capital is allowed @ 10 % p.a. and interest on drawings is charged @ 12 % p.a. Parth is to receive salary of ₹ 1,200 p.m. w.e.f. 1st August, 2019 and Pritam is to get commission @ 2 % on net sales. During the year 2019 – 20 net sales of ₹ 1,00,000 was made and firm earned net divisible profit of ₹ 30,000. Accounting year of the firm closes on 31st March every year.

You are required to prepare Capital Accounts of the partners for the year ended 31st March, 2020 under (i) Fixed Capital Method and (ii) Fluctuating Capital Method.

[**Ans.** **(i) Fixed Capital Method :** Closing balance in Capital A/c : Parth = ₹ 2,50,000 and Pritam = ₹ 2,10,000; Closing credit balance in Current A/c : Parth = ₹ 29,740 and Pritam = ₹ 20,950. **(ii) Fluctuating Capital Method :** Closing balance in Capital A/c : Parth = ₹ 2,79,740 and Pritam = ₹ 2,30,950.]

(B) PARTNERSHIP FINAL ACCOUNTS

SYLLABUS

2.1 Introduction and necessity of preparation of Final Accounts.

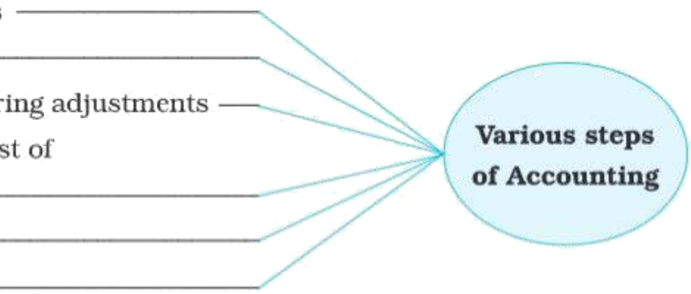
2.2 Preparation of partnership final Accounts : (1) Trading Account, (2) Profit and Loss Account and (3) Balance Sheet with the adjustments relating to following items :

(1) Closing stock (2) Outstanding expenses (3) Prepaid expenses (4) Income received in advance (5) Income receivable (6) Bad debts (7) Provision for doubtful debts (8) Reserve for discount on debtors and creditors (9) Depreciation (10) Interest on capital, drawings and loans (11) Interest on investments and loans given (12) Goods destroyed by fire/accident (insured/uninsured) (13) Goods stolen (14) Goods distributed as free samples (15) Goods withdrawn by partners (16) Unrecorded purchases and sales (17) Capital expenditure included in revenue expenses and *vice versa* (18) Bills receivable dishonoured (19) Bills payable dishonoured (20) Deferred expenses (21) Capital receipts included in revenue receipts and *vice versa* (22) Commission to working partners as percentage to Gross Profit or Net Sales/Sales, etc.

BRIEF OVERVIEW

1.1 Introduction and necessity of preparation of Final Accounts :

Introduction : Every trading organisation, prepare final accounts at the end of every financial year to find out the net result of the business done in that financial year and to know the financial position of a business. As per provisions of Income Tax Act 1961, financial or accounting year must be of 12 months which starts from 1st April and ends on 31st March of next calendar year. Final Accounts are prepared on the basis of a Trial Balance supplemented by additional information including adjustments. Preparation of final accounts is the end or last step of accounting. The various steps of accounting are shown in the following diagram :



(1) Preparation of Journal/Subsidiary Books
(2) Preparation of Ledger
(3) Preparation of Trial Balance and considering adjustments
(4) Preparation of final accounts which consist of
    (i) Trading A/c
    (ii) Profit and Loss A/c
    (iii) Balance Sheet

Necessity of preparation of Final Accounts :

(1) To ascertain gross profit earned or gross loss suffered in the business for a particular period, usually in a financial year.

(2) To ascertain net profit or net loss made in the business for a particular period, usually in one financial year.

(3) To find out the financial position of the business, i.e. assets owned and possessed by the business and liabilities owed to outsiders by the business as well as capital investment made by the owners.
(4) To prepare different financial statements for future planning.
(5) To know the amount due to business from various debtors and amount due to creditors from business.
(6) To ascertain different sources of funds and their application for the development of business.
(7) To compute and find out various accounting ratios.
(8) To provide required documents to obtain Loan from Banks or other financial institutions.
(9) To find out the value of goodwill of the partnership firm on various occasions such as admission, retirement and death of partner and dissolution of the firm.
(10) To compute and determine the tax i.e. income tax and sales tax payable to the government.

1.2 Preparation of Partnership Final Accounts :

In final accounts, two types of accounting statements are prepared, viz., (i) Income statements which consist of Trading Account and Profit and Loss Account and (ii) The statement of financial position giving details of assets and liabilities, i.e., Balance Sheet.

Trial Balance is a list of balances of various ledger accounts. It is prepared at the end of the accounting year. It includes all closing balances of various ledger accounts maintained in the books of account of a firm. Thus, Trial Balance is not an account but a statement showing the list of balances of all ledger accounts. When trial balance agrees or tallies, it ensures arithmetical accuracy of accounts kept in the books of account. Final accounts are usually prepared on the basis of agreed trial balance.

(1) Trading Account : Trading account is a nominal account. Trading account is a part of income statement, prepared on the basis of direct expenses and direct incomes of the business concern. Trading account is prepared for calculating the gross profit or gross loss of a business for a given period. Debit side of Trading Account usually includes, opening stock, purchases less returns, and direct expenses like factory expenses, carriage inwards, royalties on purchases, wages, freights paid on the goods purchased, etc. Credit side includes sales less returns, closing stock, goods lost by fire or theft, goods withdrawn by partners, goods distributed as free samples, etc. Debit balance of Trading Account indicates gross loss and credit balance shows gross profit. The balance of Trading Account is carried to Profit and Loss Account. Gross Profit is transferred to the Credit side of Profit and Loss Account and Gross Loss is shown on Debit side of Profit and Loss Account.

According to **J. R. Batliboi,** "*the Trading Account indicates the results of buying and selling of goods. While preparing this account, the general establishment charges are ignored and only the transactions related to goods are included.*"

- **Pro forma of Trading Account :**

In the books of .... and ....

Dr. **Trading Account for the year ended 31st March, 20.........** **Cr.**

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Opening Stock		XXX	By Sales	XXX	
To Purchases	XXX		Less : Sales Returns/ Returns Inwards	XXX	XXX
Less : Purchase Returns/ Returns Outwards	XXX	XXX	By Goods Distributed as Free Samples		XXX
To Wages/Productive Wages/ Manufacturing Wages/ Wages and Salaries		XXX	By Goods Destroyed by Fire		XXX

To Works Manager's Salary		XXX	By Goods withdrawn by partners for personal use		XXX
To Carriage/Carriage Inwards/ Carriage on Purchases		XXX	By Goods lost by theft		XXX
To Factory Insurance/Rent/Lighting		XXX	By Closing Stock		XXX
To Factory Salaries		XXX	By Gross Loss c/d (If any)		XXX
To Import Duty		XXX			
To Freight		XXX			
To Octroi and Cartage		XXX			
To Customs, Dock dues (charges)		XXX			
To Gas, Coal, Water, Fuel and Power/ Motive Power		XXX			
To Royalty/Royalty on Purchases		XXX			
To Manufacturing Expenses		XXX			
To Trade Expenses		XXX			
To Heating and Lighting		XXX			
To Gross Profit c/d		XXX			
		XXX			XXX

Notes :

(1) In the case of combined term of 'Wages and Salaries' following treatment should be given :

(i) In the term 'Wages and Salaries' as wages are appearing first, it should be transferred to Trading A/c – Debit side.

(ii) When the term 'Salaries and Wages' is given in which salaries appear first, it should be transferred to Profit and Loss A/c – Debit side.

(2) If the value of closing stock is given in the adjustment at cost price as well as at market price, then it is necessary to show closing stock either at its cost price or at its market price whichever is lesser.

(3) If Trade expenses are given in the trial balance with other items like Sundry Expenses or General expenses or Office expenses, then only Trade expenses should be shown at Trading A/c on debit side. If Trade expenses are given in the trial balance and none of the items of Sundry expenses or General expenses or Office expenses are given, then trade expenss are to be debited to Profit and Loss Account.

(2) Profit and Loss Account : Profit and Loss Account is prepared on the basis of indirect expenses and indirect incomes of the business concern. It is a nominal account. It is prepared to ascertain the net profit earned or net loss suffered by a business concern during the accounting year. Closing balance of Trading Account i.e. Gross profit or Gross loss is carried forward to this account and then this account is operated. All indirect expenses i.e. revenue expenses of a particular business like office or administrative expenses, distribution and selling expenses are shown on the debit side of the Profit and Loss Account. All indirect incomes i.e. revenue incomes like commission earned or received, discount received, interest received, rent earned and other sundry incomes of business are listed on credit side of Profit and Loss Account. debit balance of Profit and Loss Account indicates net loss sustained whereas credit balance of Profit and Loss Account shows net profit earned in a business activity.

The credit balance of this account i.e., net profit is then transferred to credit side of Partners' capital accounts or current accounts in their profit sharing ratio. The debit balance of this account i.e., net loss is transferred to debit side of Partners' capital accounts or current accounts.

According to **Prof. R. N. Carter,** "*a Profit and Loss Account is an account into which all gains and losses are considered in order to ascertain the excess of gain over the losses or vice versa.*"

- **Pro forma of Profit and Loss Account :**

Dr. **Profit and Loss Account for the year ended, 31st March, 20.......** **Cr.**

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Gross Loss b/d (Transferred from Trading Account)		XXX	By Gross Profit b/d (Transferred from Trading Account)		XXX
To Salaries/Salaries and Wages		XXX	By Commission Received/Earned		XXX
To Unproductive or Non-Productive Wages		XXX	By Discount Received/Earned		XXX
To Office Expenses		XXX	By Interest Received/Earned		XXX
To Rent/Office Rent & Rates/Taxes		XXX	By Income from other Sources		XXX
To Lighting/Office Lighting		XXX	By Bad Debts Recovered		XXX
To Electricity Charges		XXX	By Provisions for Discount on Creditors		XXX
To Insurance		XXX	By Dividends Received		XXX
To Postage and Telegram		XXX	By Miscellaneous/Sundry Incomes		XXX
To Telephone and Fax Charges		XXX	By Rent Received		XXX
To Courier Charges		XXX	By Profit on Sale of Assets		XXX
To Printing and Stationery		XXX	By Profit on Sale of Investment		XXX
To Legal Expenses/Law Charges		XXX	By Interest on Partners' Drawings		XXX
To Trade Expenses		XXX	By R.B.D.D. A/c		
To Repairs and Renewals		XXX	Old Reserve	XXX	
To Audit Fees		XXX	Less : Bad Debts	XXX	
To Sundry/General/Miscellaneous Expenses		XXX	Less : New Bad Debts	XXX	
To Provident Fund Contribution		XXX	Less : New Reserve	XXX	XXX
To Travelling Expenses/Conveyance		XXX	By Net Loss c/d (Transferred to Capital/ Current A/cs)		XXX
To Commission & Allowances (paid)		XXX			
To Brokerage		XXX			
To Carriage Outwards/Carriage on Sales		XXX			
To Storage/Warehouses or Godown Charges		XXX			
To Packing Expenses/Charges		XXX			
To Advertisement Expenses (Goods distributed as Free Sample)		XXX			
To Delivery Van Charges		XXX			
To Export Duties		XXX			
To Bad Debts Written off		XXX			

To R.B.D.D. A/c					
Bad Debts	XXX				
Add : New Bad debts	XXX				
Add : New Reserve	XXX				
	XXX				
Less : Old Reserve	XXX	XXX			
To Bank Charges		XXX			
To Entertainment Charges		XXX			
To Interest Paid		XXX			
To Discount allowed on Debtors		XXX			
To Discount on Bills		XXX			
To Provision for Discount on Debtors		XXX			
To Sales Tax		XXX			
To Depreciation		XXX			
To Loss by Fire/Theft		XXX			
To Loss on Sale of Fixed Assets		XXX			
To Loss on Sale of Investment		XXX			
To Donation and Charity		XXX			
To Professional Charges		XXX			
To General Reserve (Transfer)		XXX			
To Interest on Partners' Capitals		XXX			
To Salaries/Commission/ Allowances to Partners		XXX			
To Interest on Loans from Partners		XXX			
To Net Profit c/d (Transferred to Capital/Current A/cs)		XXX			
		XXX			XXX

(3) Balance Sheet : The Balance Sheet is not an account but it is a statement showing financial position of a firm as on a given date in the form of assets and liabilities. On the left-hand side of the Balance Sheet closing balances of all types of liabilities are shown and on the right-hand side of the Balance Sheet closing balances of all types of assets are shown.

According to **A. Palmer,** *"a statement on a particular date showing on one side the trader's property and possessions and on the other side the liabilities."*

- **Pro forma of Balance Sheet :**

Balance Sheet as on 31st March, ...

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Partners' Capital A/cs :			Goodwill		XXX
X	XXX		Patents & Patterns		XXX
Y	XXX	XXX	Trade Marks		XXX
			Copyrights		XXX
			Freehold Property		XXX

Partners' Current A/cs :			Leasehold Property		XXX
(Credit balance)			Premises		XXX
X	XXX		Land and Buildings		XXX
Y	XXX	XXX	Plant and Machinery		XXX
General Reserve/Reserve Fund		XXX	Delivery Van/Motor Vehicles		XXX
Provident Fund		XXX	Furniture and Fixtures		XXX
Loan from Partners		XXX	Office Equipments		XXX
Loan from Bank		XXX	Loose Tools		XXX
Bank Overdraft		XXX	Investments		XXX
Sundry Creditors		XXX	Provident Fund Investment		XXX
Bills Payable		XXX	Interest Accrued on Investment		XXX
Outstanding Expenses		XXX	Loans (given)		XXX
Income Received in Advance		XXX	Sundry Debtors		XXX
			Stock of Stationery		XXX
			Stock of Postal Stamps		XXX
			Closing Stock (Goods)		XXX
			Bills Receivable		XXX
			Insurance Claim Receivable		XXX
			Cash in Hand		XXX
			Cash at Bank		XXX
			Prepaid Expenses		XXX
			Incomes Receivables		XXX
			Partners' Current Accounts :		
			(Debit balance)		
			X	XXX	
			Y	XXX	XXX
		XXX			XXX

Adjustments :

A brief synopsis of the common adjustments to final accounts is given below :

Adjustments to Final Accounts

Sr. No.	Adjustment for	Treatment in	
		Trading A/c or Profit and Loss A/c	**Balance Sheet**
1.	Closing Stock	Show 'Closing Stock' on the Credit side of the Trading A/c.	Show 'Closing Stock' on the Assets side.
2.	Outstanding Expenses	Add to the concerned expense on the Debit side.	Show 'Outstanding Expenses' on the Liabilities side.
3.	Prepaid Expenses	Deduct from the concerned expense on the Debit side.	Show 'Prepaid Expenses' on the Assets side.
4.	Income Received in Advance (Pre-received income)	Deduct from the concerned income on the Credit side.	Show 'Incomes Received in Advance' on the Liabilities side.

Sr. No.	Adjustment for	Treatment in	
		Trading A/c or Profit and Loss A/c	**Balance Sheet**
5.	Income Receivable (Outstanding income)	Add to concerned income on the Credit side.	Show 'Incomes Receivable' on the Assets side.
6.	Bad Debts (Additional or Further)	Show the amount of Bad Debts on the Debit side of the Profit and Loss Account.	Deduct the amount of Bad Debts from the Sundry Debtors on the Assets side of Balance Sheet.
7.	Provision for Bad and Doubtful Debts (Reserve for Bad and Doubtful Debts) (R.B.D.D.)	Dr. Profit and Loss A/c To R.B.D.D. A/c Bad debts A (as per Trial Balance) (+) Further Bad Debts B (as given in adjustment) (+) New R.B.D.D. or R.D.D. C (as per adjustment) (–) Old R.B.D.D. or R.D.D. D (as per Trial Balance) E F (i) When 'D' exceeds 'E' show 'F' on Debit side of P and L A/c. (ii) When 'E' exceeds 'D' show 'F' on Credit side of P and L A/c.	Balance Sheet Assets Sundry Debtors M (–) Further Bad debts B (given in adjustment) N (–) New R.B.D.D./R.D.D. C (to be calculated @ given % on N) Q
8. (a)	Reserve for Discount on Debtors (Provision for Discount on Debtors)	Show 'Discount Allowed + New Provision – Old Provision' on the Debit side, or if that gives a negative or minus figure, 'Old Provision – Discount Allowed – New Provision' on the Credit side of the P and L A/c.	Deduct the New Provision for Discount from the 'Sundry Debtors' on the Assets side.
(b)	Reserve for Discount on Creditors (Provision for Discount on Creditors)	Show 'Discount Received + New Provision – Old Provision' on the Credit side, or if that gives a negative figure, 'Old Provision – Discount Received – New Provision' on the Debit side of the P and L A/c.	Deduct the New Provision for Discount from the 'Sundry Creditors' on the Liabilities side.
9.	Depreciation	Show 'Depreciation' on the Debit side of the P and L A/c.	Deduct Depreciation from the concerned asset on the Assets side.
10.	Interest payable on Capital	Show Interest on 'Capital' on the Debit side of Profit and Loss Account.	Add 'Interest payable on Capital' to the Current (or the Capital) A/c of the partner on the Liabilities side.
11.	Interest due on Drawings	Show 'Interest on Drawings' on the Credit side of the Profit and Loss Account.	Deduct 'Interest due on Drawings' from the Current (or the Capital) A/c balance of the partner on the Liabilities side.

Sr. No.	Adjustment for	Treatment in	
		Trading A/c or Profit and Loss A/c	**Balance Sheet**
12.	Interest payable on Loan borrowed (taken)	Show 'Interest payable on Loan' on the Debit side of the Profit and Loss Account.	Add interest payable to 'Loan Borrowed' on the Liabilities side.
13.	Interest due on Investment	Show 'Interest due on Investment' on the Credit side of Profit and Loss Account.	Add 'Interest due on Investment' to Investment on the Assets side.
14.	Interest due on Loan advanced (given)	Show 'Interest due on Loan given' on the Credit side of the Profit and Loss Account.	Add 'Interest due on loan' to Loan given on the Assets side.
15.	Insured Goods Destroyed, Damaged or Stolen and Insurance Company admitted claim	Show the net loss as 'Loss by Fire/Damage/ Theft' on the Debit side of the P and L A/c and the full value of these goods as 'Goods Lost by Fire/ Damage/ Theft' on the Credit side of the Trading A/c.	Show the amount recoverable from the Insurance Company as 'Insurance Claim Receivable' on the Assets side.
16.	Uninsured Goods Destroyed or Damaged or Stolen	Show full value of uninsured goods as 'Loss by Fire/Damage/Theft' on the Debit side of the P and L A/c and full value of the goods as 'Goods Lost by Fire/Damage/Theft' on the Credit side of the Trading A/c.	—
17.	Goods distributed as Free Samples	Show the 'Free Samples Distributed' as Advt. Exp. on the Debit side of the P and L A/c and the 'Goods Distributed as Free Samples' on the Credit side of the Trading A/c.	—
18.	Goods Withdrawn by a Partner for personal use	Show 'Goods Withdrawn by Partners' on the Credit side of the Trading A/c.	Deduct the amount of Goods Withdrawn by Partner from the Capital A/c or Current A/c on the Liabilities side. (Drawings)
19.	Unrecorded purchase of goods	Add to 'Purchases' on the Debit side of the Trading A/c.	Add to 'Sundry Creditors' on the Liabilities side.
20.	Unrecorded sale of goods	Add to 'Sales' on the Credit side of the Trading A/c.	Add to 'Sundry Debtors' on the Assets side.
21.	**Capital Expenditure included in Revenue expenditure :**		
(a)	Carriage paid on purchase of new machinery included in carriage inwards.	Deduct the amount of carriage paid on purchase of new machinery from carriage inwards on the Debit side of the Trading Account.	Add the same amount to Machinery on the Assets side.

Sr. No.	Adjustment for	Treatment in	
		Trading A/c or Profit and Loss A/c	Balance Sheet
(b)	Goods purchased for the construction of Building included in Purchases.	Deduct the amount of goods purchased for construction of building purpose from the Purchases on the Debit side of the Trading Account.	Add the same amount to Buildings on the Assets side.
22.	**Revenue Expenditure included in Capital expenditure :**		
(a)	Repairs to machinery included in Machinery.	Show separately the amount of Repairs to machinery on Debit side of Profit and Loss Account.	Deduct the amount of Repairs to machinery from Machinery on the Assets side before calculating depreciation.
(b)	Cost of repairs to building included in Building.	Show separately the amount of Repairs to building on the Debit side of Profit and Loss Account.	Deduct the amount of Repairs to building from Building on the Assets side before calculating depreciation.
23.	Bills Receivable included a dishonoured bill	No accounting effect	(1) Deduct the amount of Bill dishonoured from Bills Receivable on the Assets side. (2) Add the amount of Bill dishonoured to Debtors before calculating Reserve for Doubtful debts or Reserve for discount on debtors.
24.	Bills payable included a dishonoured bill	No accounting effect	(1) Deduct the amount of Bill dishonoured from Bills Payable on Liabilties side. (2) Add the amount of Bill dishonoured to Creditors before calculating Reserve for discount on creditors.
25.	Deferred Revenue expenses e.g. Heavy advertising expenses paid for 5 years	Proportionate amount of Advertising expenses for the current year is to be debited to Profit and Loss Account.	The balance amount of Advertising expenses not yet written off is to be shown on the Assets side.
26.	Capital Receipt included in revenue receipt e.g. sale of old furniture included in sales account	Deduct the amount of Sale of old furniture from Sales on Credit side of Trading Account.	Deduct the amount of Sale of old furniture from Furniture on the Assets side.
27.	Revenue Receipt included in capital receipt e.g. sale of goods included in sale of machinery	Add the amount of Sale of goods to Sales on the Credit side of Trading Account.	Add the same amount to Machinery on the Assets side.
28.	Commission to Partner as % to Gross Profit or Sales	Show the amount of Commission payable to partner on the Debit side of Profit and Loss Account.	Add the amount of Commission to partner's capital account or current account on the Liabilities side.

Accounting treatment or effects of hidden silent or self-evident adjustments given in the trial balance :

Sr. No.	Adjustment given in the trial balance	Treatment in	
		Trading A/c or Profit and Loss A/c	**Balance Sheet**
1	Salary/Rent paid (for 10 months)	Add the amount of Salaries/Rent for 2 months to Salaries/Rent respectively on the Debit side of Profit and Loss A/c	Show separately the amount of Salaries Rent for 2 months on the Liabilities side of the Balance Sheet.
2.	Insurance premium paid for 1 year ending 30th June, 2020 (Accounting year ends on 31st March, 2020)	Deduct the proportionate amount of insurance premium for 3 months from 'Insurance' on the Debit side of Profit and Loss A/c.	Show separately the amount of Prepaid Insurance on the Assets side of the Balance Sheet.
3.	Advertisement expenses (Paid for 4 years)	Show 1/4th amount of Advertisement expenses on the Debit side of Profit and Loss A/c.	Show the remaining i.e. 3/4th of Advertisement expenses (not written off) on the Assets side of the Balance Sheet.
4.	Rent received (for 11 months)	Add the proportionate amount of Rent for one month to Rent received on Credit side of Profit and Loss A/c.	Show the same amount on the Assets side of the Balance Sheet.
5.	10 % loan (Borrowed on 1st Oct. '19) (Accounting year ends on 31st March, '20)	Show the amount of Interest due on loan for 6 months on the Debit side of Profit and Loss A/c.	Add the amount of Interest due to loan on the Liabilities side of the Balance Sheet.
6.	16 % Investment (Purchased on 1st January, 2020) (Accounting year ends on 31st March, 2020)	Show the amount of Interest receivable on investment for 3 months on the Credit side of the Profit and Loss A/c.	Add the amount of Interest receivable on investment on the Assets side of the Balance Sheet.
7.	10 % Government Bonds	Show the amount of Interest receivable on the Credit side of Profit and Loss Account.	Add the amount of Interest receivable to Government Bonds on the Assets side of the Balance Sheet.

Important Points / Notes :

(1) Every item in the trial balance must be shown only once and in just one part of the final accounts.

(2) Give at least two effects of every adjustments.

(3) Debit balances of Trial Balance will appear on the Debit side of Trading A/c or on the Debit side of Profit and Loss A/c or on the Assets side of Balance Sheet.

(4) Credit balances of Trial Balance will appear on the Credit side of Trading A/c or on the Credit side of Profit and Loss A/c or on the Liabilities side of Balance Sheet.

(5) Pass the effects of the adjustments for Bad debts, Provision for Bad and Doubtful debts and Reserve for discount on debtors, after other adjustments of Debtors are given effected.

(6) After giving effects of concerning creditors, pass the effect for Reserve for discount on creditors.

(7) Hidden or self explanatory adjustments are to be given effect even if there is no special instruction in the problem related to this is mentioned.

(8) When the date of drawings is not given, interest on drawings should be calculated on average basis or for the period of six months.

Interest on drawings $= \text{Amount of drawings} \times \frac{\text{Rate of interest}}{100} \times \frac{6}{12} \left[I = \frac{PRN}{100} \right]$

(9) If a manager or a partner is allowed commission at a certain percentage on Net profit such commission should be calculated as follows :

(a) If it is on Net profit before charging such commission :

$$\text{Commission amount} = \frac{\text{Rate of commission} \times \text{Net profit}}{100}$$

(b) If it is on Net profit after charging such commissions

$$\text{Commission amount} = \frac{\text{Rate of commission} \times \text{Net profit}}{100 + \text{Rate of commission}}$$

Treatment of some important items appearing in Trial Balance only :

Sr. No.	Balance given in the Trial Balance	Treatment in
(1)	Provident fund	Liability side of Balance Sheet
(2)	Contribution to provident fund	Debit side of Profit and Loss A/c
(3)	Investments of provident fund	Asset side of Balance Sheet
(3)	Interest on investments of provident fund	Liability side of Balance Sheet
(5)	Suspense Account :	
	(i) Shown on debit side	Show the same figure on Asset side
	(ii) Shown on credit side	Show the same figure on Liability side
(6)	Closing stock	Asset side of Balance Sheet
(7)	Reserve for discount on debtors	Credit side of Profit and Loss A/c
(8)	Reserve for discount on creditors	Debit side of Profit and Loss A/c
(9)	General reserve / Reserve fund	Liability side of Balance Sheet
(10)	Income received in advance	Liability side of Balance Sheet
(11)	Any outstanding income	Asset side of Balance Sheet
(12)	Any prepaid expense	Asset side of Balance Sheet
(13)	Any outstanding expense	Liability side of Balance Sheet
(14)	Depreciation	Debit side of Profit and Loss A/c
(15)	Loss on sale of any asset	Debit side of Profit and Loss A/c
(16)	Deposits from public	Liability side of Balance Sheet
(17)	Goods distributed as free samples	Debit side of Profit and Loss A/c [As Advt. Exp.]
(18)	Goods withdrawn by partner	Debit side of Capital / Current A/c [As drawings]

EXERCISE

(A) * (1) Select the most appropriate alternatives from the following and rewrite the sentences :

(1) When there is no partnership agreement between partners, the division of profits take place in -------------------- ratio.

(a) equal *(b) capital ratio*

(c) initial contribution *(d) experience and tenure of partners*

(2) To find out Net Profit or Net Loss of the business .... Account is prepared.

(a) Trading (b) Capital (c) Current (d) Profit & Loss

(3) A .... is an Intangible Asset.

(a) Goodwill (b) Stock (c) Cash (d) Furniture

(4) In the absence of an agreement, interest on loan advanced by the partner to the firm is allowed at the rate of ....

(a) 5 % (b) 6 % (c) 10 % (d) 9 %

(5) Liability of partners in a partnership business is ....

(a) limited (b) unlimited

(c) limited and unlimited (d) none of the above

(6) The Indian Partnership Act is in force since ....

(a) 1932 (b) 1881 (c) 1956 (d) 1984

(7) Maximum number of Partners in a firm are .... according to Companies Act, 2013.

(a) 10 (b) 25 (c) 20 (d) 50

Ans. (1) When there is no partnership agreement between partners, the division of profits take place in equal ratio.

(2) To find out Net profit or Net loss of the business Profit and Loss Account is prepared.

(3) A Goodwill is an Intangible Asset.

(4) In the absence of an agreement, interest on loan advanced by the partner to the firm is allowed at the rate of 6 %.

(5) Liability of partners in a partnership business is unlimited.

(6) The Indian Partnership Act is in force since 1932.

(7) Maximum number of partners in a firm are 50 according to Companies Act, 2013.

> **Note :** *While answering this question, students should write the full statements and underline the answer word or figure as shown. Now onwards, we have given only the answer word or figure.*

(2) (1) When dates of drawings are not given, interest on drawings is charged for .... months.

(a) three (b) six (c) nine (d) twelve

(2) A debit balance of partner's current account will appear on the .... side of the Balance Sheet.

(a) assets (b) liabilities (c) debit (d) credit

(3) The interest on partner's capital is credited to .... Account.

(a) Trading (b) Profit and Loss (c) Capital (d) Cash

(4) Under fixed capital method, salary or commission to partner is credited to .... Account.

(a) Partner's Capital (b) Partner's Current (c) Partner's Drawings (d) Partner's Salary

(5) If fixed capital method is adopted, net divisible profit is transferred to .... Account.

(a) Partner's Current (b) Partner's Capital (c) Profit and Loss (d) Trading

(6) A statement showing financial position of a business is called a ....

(a) Balance Sheet (b) Trial Balance (c) Capital A/c (d) Trading A/c

(7) Wages paid for installation of machinery should be debited to .... Account.

(a) Machinery (b) Wages (c) Trading (d) Profit and Loss

(8) All indirect expenses are debited to .... Account.

(a) Trading (b) Capital (c) Profit and Loss (d) Current

(9) Return outwards are deducted from ....

(a) Purchase (b) Sales (c) Capital (d) Debtors

(10) Debit balance of Trading Account indicates ....

(a) Gross Profit (b) Gross Loss (c) Net Profit (d) Net Loss

Ans. (1) six (2) assets (3) Capital (4) Partner's Current (5) Partner's Current (6) Balance Sheet (7) Machinery (8) Profit and Loss (9) Purchase (10) Gross Loss

(3) (1) Credit balance of Profit and Loss Account indicates ....

(a) Gross Profit (b) Gross Loss (c) Net Profit (d) Net Loss

(2) Income received in advance is shown on .... side of the Balance Sheet.

(a) Debit (b) Credit (c) Assets (d) Liabilities

(3) Amount irrecoverable from debtors is known as ....

(a) discount (b) bad debts (c) allowance (d) none of these

(4) Trading Account is prepared on the basis of .... expenses.

(a) indirect (b) direct (c) revenue (d) capital

(5) Royalty paid on production is shown in the ....

(a) Balance Sheet (b) Trading A/c (c) Profit and Loss A/c (d) Partner's Current Account

(6) Prepaid expenses are shown on the .... side of the Balance Sheet.

(a) Assets (b) Liabilities (c) Debit (d) Credit

(7) Advertisement expenditure to be written off yet, will appear on the .... side of Balance Sheet.

(a) Debit (b) Liabilities (c) Assets (d) Credit

(8) .... is the list of all ledger balances.

(a) Balance Sheet (b) Trial Balance (c) Trading A/c (d) Profit and Loss A/c

(9) Final accounts are prepared on the basis of .... and adjustments.

(a) Trial balance (b) Trading A/c (c) Profit and Loss A/c (d) Capital A/c

(10) Personal medical bill of a partner, paid from the business is known as .... of the partner.

(a) capital (b) profit (c) cash (d) drawings

Ans. (1) Net Profit (2) Liabilities (3) bad debts (4) direct (5) Trading A/c (6) Assets (7) Assets (8) Trial balance (9) Trial balance (10) drawings

(B) ✲ (1) Write the word/phrase/term, which can substitute each of the following statements :

Statement	Ans. (word/phrase/term)
(1) Persons who form the partnership firm.	Partners
(2) Amount of cash or goods withdrawn by partners from the business from time to time.	Drawings
(3) An association of two or more persons according to Indian Partnership Act 1932.	Partnership firm
(4) Act under which partnership firms are regulated.	Indian Partnership Act
(5) Process of entering the name of partnership firm in the register of Registrar.	Registration
(6) Partnership agreement in written form.	Partnership Deed
(7) Under this method capital balances of partners remains constant.	Fixed Capital Method
(8) Proportion in which partners share profit.	Profit Sharing Ratio
(9) Such capital method in which only Capital Account is maintained for each partner.	Fluctuating Capital Method
(10) The account to which all adjustment are made when capital is fixed.	Current Account
(11) Expenses which are paid before they are due.	Prepaid expenses
(12) The accounts that are prepared at the end of each accounting year.	Final Accounts
(13) An asset which can be converted into cash easily.	Current Assets or Liquid Assets
(14) Order in which fixed assets are recorded first in Balance Sheet.	Order of liquidation
(15) The account in which selling expenses of business are recorded.	Profit and Loss Account
(16) Debit balance of Trading Account.	Gross loss
(17) Credit balance of Profit and Loss Account.	Net profit

(2)

Statement	Ans. (word/phrase/term)
(1) Capital method in which partner's Current Account is opened.	Fixed Capital Method
(2) Capital method in which partner's Current Account is not opened.	Fluctuating Capital Method
(3) Method of Capital Account in which capital balances of partners changes every year.	Fluctuating Capital Method
(4) Expenses which are due but not paid at the end of the year.	Outstanding/Unpaid expenses
(5) A provision which is created on sundry debtors for likely bad debts.	Reserve for Doubtful Debts
(6) Income which is received before it is due.	Income received in advance
(7) Stock which is valued at cost price or market price whichever is less.	Closing stock
(8) Reduction in the value of fixed assets due to its continuous use.	Depreciation
(9) The transport expenses incurred to carry the goods purchased by the firm.	Carriage Inward
(10) Income due but not received.	Accrued income
(11) Account prepared on the basis of direct expenses and incomes.	Trading Account
(12) Account prepared on the basis of indirect expenses and incomes.	Profit and Loss Account
(13) The transport expenses paid to Railway, Airways company or Shipping company.	Freight

(C) ✲ (1) State whether the following statements are True or False with reasons :

(1) Partnership firm is a Non-Trading concern.

Ans. This statement is **False**.

Main aim of partnership firm is to earn maximum profit. Partnership is a trading concern. It undertakes either manufacturing or distributive activities with sole aim of earning profit and distribute that profit among the partners in specific ratio. It is never formed for charitable purpose.

(2) Profit and Loss Account is a Real Account.

Ans. This statement is **False**.

Account of expenses, losses, gains and incomes is called Nominal account. Profit and Loss Account contains all indirect expenses and indirect incomes of the firm. Therefore, Profit and Loss Account is a Nominal Account and not real account.

(3) Carriage inward is carriage on purchase.

Ans. This statement is **True**.

Total transport expenses incurred on bringing the goods from market to the place of business is called carriage. When goods are purchased, carriage is supposed to be borne by the firm. It is known as carriage inward. It means carriage paid on purchase.

(4) Adjustments are recorded in Partners Current Account in Fixed Capital Method.

Ans. This statement is **True**.

In Fixed Capital Method, as name suggest capital balances (opening and closing) are generally remain fixed. Under this method, adjustments are not to be recorded in Capital Account. All adjustments are recorded in a separate account called Partners' Current Accounts.

(5) Prepaid expenses are treated as liabilities.

Ans. This statement is **False**.

Prepaid expenses are expenses which are paid before they are due. Therefore, they are considered an asset of the business organisation.

(6) If partnership deed is silent, partners share profits and losses in proportion to their capital.

Ans. This statement is **False**.

As per the provisions made under Indian Partnership Act 1932, when partnership deed is silent about profit and loss sharing ratio, partners are supposed to share profits and losses in equal proportion, and not in their capital ratio.

(7) Balance Sheet is an Account.

Ans. This statement is **False**.

Financial statement showing all assets and liabilities is called Balance sheet. It is not an account. It is a position statement which shows various assets owned by the firm and various liabilities owned by it. On the left hand side all liabilities are listed and on the right hand side all assets are recorded.

(8) Wages paid for installation of machinery is a Revenue expenditure.

Ans. This statement is **False**.

Wages paid for installation of machinery is a capital expenditure and therefore it is added to the cost of machinery. It is, generally, paid once in a life of an asset. It is a long-term and capital expenditure.

(9) Income received in advance is a liability.

Ans. This statement is **True**.

When income in respect to next year, it received in the current year, it is known as income received in advance. So, in next year firm will not be able to receive that amount and therefore it is considered as a liability for current year.

(10) R.D.D. is created on Creditors.

Ans. This statement is **False**.

R.D.D. stands for Reserve for Doubtful Debts. It is created on the value of debtors. Such provision is made against profit and loss account. In future if loss is incurred on account of bad debts, such amount is used to run the business.

(11) Depreciation is not calculated on Current Assets.

Ans. This statement is **True**.

Current Assets means liquid assets having no fixed tenure therefore depreciation cannot be calculated on it. Depreciation is calculated and charged on fixed assets for their use, wear and tear etc.

(12) Goodwill is an intangible asset.

Ans. This statement is **True**.

Goodwill is a reputation of business computed in terms of money. Reputation can be experienced but can't be seen or felt. Therefore, Goodwill is an intangible asset.

(13) Indirect expenses are debited to Trading Account.

Ans. This statement is **False**.

Indirect expenses means expenses which are not directly related with production of goods and services. Therefore, indirect expenses cannot be debited to Trading Account. All indirect expenses are debited to Profit and Loss Account.

(14) Bank loan is a current liability.

Ans. This statement is **False**.

Loan usually taken for the period more than 1 year say 5 years from the bank is called Bank Loan. It is long term loan. It is not repaid within 1 year but paid in installments over number of years. It might be paid in lumpsum at the expiry of term.

(15) Net profit is debit balance of Profit and Loss Account.

Ans. This statement is **False**.

In a Profit and Loss Account, when credit side total i.e. total of incomes is more than the debit side total, i.e. expenses it is known as credit balance. When incomes exceed expenses there is profit. Therefore credit balance of Profit and Loss Account indicates net profit.

(2) **(1) Partnership agreement must be in written form.**

Ans. This statement is **False**.

Partnership agreement can be in oral or written form. It is advisable to have partnership agreement in written form, to avoid future conflicts and disputes among the partners. However, it is not compulsory.

(2) There is no limit to maximum number of partners in a firm.

Ans. This statement is **False**.

Minimum two persons are required to form the partnership firm. As per the provisions made under Companies Act 2013 (amended in 2014) the maximum number of partners in a firm is restricted to 50.

(3) **Partners are entitled to get salary or commission.**

Ans. This statement is **False**.

In Partnership Deed when it is clearly mentioned that all partners or specific partner is entiteld to salary or commission then only partners are entitled to get salary or commission. When partnership deed remains silent on salary or commission, then partners are not able to get any salary or commission.

(4) **Closing stock is always valued at market price.**

Ans. This statement is **False**.

As per conservatism concept, closing stock is always valued at cost price or market price whichever is less. If market price of closing stock is greater than its cost then closing stock is recorded at cost.

(5) **Trial balance is the base of Final Account.**

Ans. This statement is **True**.

Based on the Trial balance and other adjustments, one can prepare Final Accounts. So, Trial balance is the base of Final Accounts.

(6) **Return inward is deducted from purchases.**

Ans. This statement is **False**.

Return inward means Sales return and it is to be deducted from sales, not from purchase. Return outward is deducted from purchases.

(7) **Discount allowed to Debtors is called as Bad debts.**

Ans. This statement is **False**.

Discount allowed to Debtors is an expense for the business while Bad debts means irrecoverable amount from debtors and is a loss to the business. Thus, both have different meaning so, we cannot say that discount allowed to debtors is called as Bad debts.

*(D) Find odd one :

(1) Wages, Salary, Royalty, Import Duty

(2) Postage, Stationery, Advertising, Purchases

(3) Capital, Bills Receivable, Reserve fund, Bank overdraft

(4) Building, Machinery, Furniture, Bills Payable

(5) Discount received, Dividend received, Interest received, Depreciation

Ans. (1) Salary (2) Purchases (3) Bills Receivable (4) Bill Payable (5) Depreciation

(E) * (1) Complete the sentences :

(1) Partners share profits & losses in .... ratio in the absence of partnership deed.

(2) Registration of partnership is .... in India.

(3) Partnership business must be ....

(4) Liabilities of partners in partnership firm is ....

(5) The balance of Drawings Account of a partner is transferred to his .... Account under the Fixed Capital Method.

(6) The interest on capital of a partner is debited to .... Account.

(7) Partners are .... liable for the debts of the firm.

(8) Partnership Deed is an .... of Partnership.

(9) The withdrawal by partner for personal use from the firm is .... to his account.

(10) Commission payable to partner is .... to the firm.

(11) When partners adopt Fixed Capital Method then they have to operate .... Account.

(12) If partners' Current Account shows .... balance it is shown to the Liability side of Balance Sheet.

(13) The expenses paid for trading purpose are known as .... expenses.

(14) Cash receipts which are recurring in nature are called as .... Receipts.

(15) Return outward are deducted from ....

(16) Expenses which are paid before due date are called as ....

(17) Assets which are held in the business for a long period are called ....

(18) Trading Account is prepared on the basis of .... expenses.

(19) When commission is allowed to any partner, it is .... of the business.

(20) When goods are distributed as free samples, it is treated as .... of the business.

Ans. (1) equal (2) optional (3) lawful (4) unlimited (5) Current (6) Profit and Loss (7) joint & several (8) Article (9) debited (10) liability/outstanding expense (11) Partner's Current (12) credit (13) trade (14) Revenue (15) purchase (16) Prepaid Expenses (17) Fixed Assets (18) direct (19) expenditure (20) advertisement expense

(2) (1) Documentation charges paid for purchasing a building is debited to .... Account.

(2) Credit balance of Trading Account indicates ....

(3) Receivable income is shown on .... side of the Balance Sheet.

(4) Trademark, Copyright, Patents are the examples of .... asset.

(5) Balance Sheet is a .... but it is not an ....

(6) Profit and Loss Account is a .... Account.

(7) The income which is due but not yet received is called .... income.

(8) The statement showing list of all ledger balances is known as ....

(9) Debit balance of Profit and Loss Account means ....

(10) Interest on capital is an .... for the partner.

(11) Income accured but not received is .... for firm.

(12) Sale of scrap is recorded on .... side of .... Account.

(13) General reserve is recorded in .... side of ....

(14) Provision for doubtful debts recorded in .... side of .... when it is given in the Trial balance only.

(15) Provident fund amount is a .... for the firm.

Ans. (1) Building (2) Gross Profit (3) Assets (4) intangible (5) Statement, Account (6) Nominal (7) accrued/receivable (8) Trial balance (9) Net Loss (10) income (11) an asset (12) Credit, Profit and Loss (13) Liability, Balance Sheet (14) Liability, Balance Sheet (15) Liability.

(F) * (1) Answer in one sentence only :

(1) What is Fluctuating Capital ?

Ans. When capital balances of the partners go on changing every year due to transactions of patners with the firm, it is known as Fluctuating Capital.

(2) Why is Partnership Deed necessary ?

Ans. Partnership Deed is necessary to prevent disputes or misunderstandings among the partners in future.

(3) If the Partnership Deed is silent, in which ratio, the partners will share the profit or loss?

Ans. If the Partnership Deed is silent, partners will share profits and losses in equal ratio.

(4) What is the Fixed Capital Method ?

Ans. Fixed Capital Method is one in which capital balances of the partners remains same at the end of every financial year unless any amount of additional capital is introduced or part of the capital is withdrawn by the partner from the business.

(5) How many partners are required to form a partnership firm ?

Ans. Minimum two persons are required to form a partnership firm.

(6) What is Partnership Deed ?

Ans. A partnership deed is a written agreement duly stamped and signed document containing the terms and condition of the partnership.

(7) What are the objectives of the Partnership Firm ?

Ans. To earn maximum profit is the main objective of the partnership firm.

(8) What rate of interest is allowed on partner's loan in the absence of an agreement ?

Ans. 6 % is the rate of interest to be allowed on partner's loan in the absence of an agreement.

(9) What is the minimum number of partners in a partnership firm according to Indian Partnership Act 1932 ?

Ans. Minimum two persons are required number of partners in a partnership firm according to Indian Partnership Act 1932.

(10) What is liability of a partner ?

Ans. Liability of a partner (except minor partner) is unlimited.

(11) In the absence of Partnership Deed, what is the rate of interest on loan advanced by partner to the firm is allowed ?

Ans. In the absence of Partnership Deed, 6 % is the rate of interest on loan advanced by partner to the firm.

(12) What do you mean by pre received income ?

Ans. Income which is received by the partnership firm before it is due is called pre received income.

(13) What is the effect of the adjustment of provision for discount on debtors in the final accounts of partnership ?

Ans. The effects of the adjustment of provision for discount on debtors in the final accounts of partnership are as follows :

Debit Profit and Loss A/c and deduct the amount of provision for discount on debtors from the amount of debtors.

(14) When is Partners Current Account is opened ?

Ans. When Fixed Capital Method is adopted by the firm, Partners Current Account is opened.

(15) As per which principle of accounting, closing stock is valued at cost price or at market price whichever is less ?

Ans. As per Conservatism principle of accounting, closing stock is valued at cost price or at market price whichever is less.

(16) What is the provision of Indian Partnership Act with regard to Interest on Capital ?

Ans. As per provision of Indian Partnership Act, Interest on Capital is not to be allowed.

(17) Why is Balance Sheet prepared ?

Ans. Balance Sheet is prepared to know the financial position of the business in the form of its assets and liabilities on a particular date.

(18) Why wages paid for installation of machinery are not shown in Trading Account ?

Ans. Wages paid for installation of machinery is a capital expenditure and it is not to be recorded in Trading Account.

(19) What do you mean by indirect incomes ?

Ans. All incomes other than direct incomes are called indirect incomes. [e.g. Interest received on investments, Incomes like discount, commission, dividend, rent etc. received].

(20) Why partners capital is treated as long-term liability of business ?

Ans. Partner's Capital is not refunded during the existence of partnership firm unless partner is retired or expired.

(2) **(1) Define : 'Partnership' as per Indian Partnership Act 1932.**

Ans. As per Indian Partnership Act 1932, "partnership is the relation between persons who have agreed to share the profits of a business carried on by all or any one of them acting for all".

(2) State the two fold capacities of each partner works in a business.

Ans. Each partner works in two fold capacities viz. Principal and Agent in a business.

(3) As per Income Tax Act 1961, write the dates for Financial or Accounting Year.

Ans. As per Income Tax Act 1961, Financial or Accounting year starts from 1st April of current year to 31st march of next year [e.g. 01/04/2019 to 31/03/2020].

(4) How many effects for the hidden adjustment given in the Trial balance are to be passed ?

Ans. Two effects for every hidden adjustment, given in the Trial balance are to be passed, though no special instruction is given in the problem.

(G) * (1) Do you agree/disagree with the following statements :

(1) When Partnership Deed is silent, partners share profits of the firm according to capital ratio.

(2) Current Account always shows a debit balance.

(3) It is compulsory to have a partnership agreement in writing.

(4) Partnership Firm is a trading concern.

(5) An interest on capital is an expenditure for the partnership firm.

(6) Partnership is an association of two or more persons.

(7) Partners are entitled to get Salary or Commission.

(8) The balance of Capital Account remains constant under Fixed Capital Method.

(9) The Indian Partnership Act, came into existence in the year 1945.

(10) Profit and Loss Account reflects the true Financial position.

(11) Amount borrowed by partner from his business will be debited to Current Account.

(12) Sold but undispatched goods must be part of valuation of closing stock.

(13) Carriage inward is a selling and distribution overhead.

(14) Gross profit is an operation profit.

(15) All financial expenditures are debited to Profit and Loss Account.

(16) Free distribution of goods is debited to Trading Account.

Ans. (1) Disagree (2) Disagree (3) Disagree (4) Agree (5) Agree (6) Agree (7) Disagree (8) Agree (9) Disagree (10) Disagree (11) Agree (12) Disagree (13) Disagree (14) Disagree (15) Agree (16) Disagree

(2) (1) Profit and Loss Account is a Real Account.

(2) Carriage outward means carriage on sales.

(3) Adjustments are recorded in Partners' Current Account in Fluctuating Capital method.

(4) Outstanding incomes are treated as an asset.

(5) Balance Sheet is an account.

(6) R. D. C. is created on creditors.

(7) Depreciation is calculated on fixed assets.

(8) Copyright is a visible asset.

(9) Interest on drawings is an income for the firm.

(10) Interest on Partner's Loan to the firm is always to be allowed.

(11) All indirect expenses are debited to Trading Account.

(12) Capital Account always shows a credit balance.

(13) Trading Account is prepared to know profit or loss of the firm.

(14) Final Accounts are prepared on the basis of Trial Balance and adjustments given.

(15) Royalty paid on production is shown in the Trading Account.

Ans. (1) Disagree (2) Agree (3) Disagree (4) Agree (5) Disagree (6) Agree (7) Agree (8) Disagree (9) Agree (10) Agree (11) Disagree (12) Disagree (13) Disagree (14) Agree (15) Agree

* (H) Calculate the following :

(1) Undervaluation of closing stock by 10 %, closing stock was ₹ 30,000. Find out the value of closing stock.

Solution : Undervaluation of closing stock by 10 %

$$\text{Revised value} = \frac{\text{Book value}}{100 - \%\text{ of undervaluation}} \times 100$$

$$= \frac{30{,}000}{100 - 10} \times 100 = ₹\ 33{,}333.$$

∴ Value of closing stock = ₹ 33,333.

(2) Calculate 12.5 % P.A. depreciation on Furniture :

(a) on ₹ 2,20,000 for 1 year (b) on ₹ 10,000 for 6 months

Solution :

Depreciation = Amount of asset × Period × %

(a) Depr. on furniture $= 2{,}20{,}000 \times 1 \times \frac{12.5}{100}$

$= ₹\ 27{,}500$

∴ Deprecation on furniture for 1 year = ₹ 27,500

(b) Dept. on furniture $= 10{,}000 \times \frac{6}{12} \times \frac{12.5}{100}$

$= ₹\ 625$

∴ Depreciation on furniture for 6 months = ₹ 625

(3) Insurance premium is paid for the year ending on 1st September, 2019 amounted to ₹ 1500. Calculate prepaid insurance assuming that the year ending is 31st March, 2019.

Solution :

From 31st March to 1st September, 5 months period prepaid insurance amount we have to find. Insurance premium paid for the 12 months = ₹ 1500

∴ for 5 months period it is $1500 \times \frac{5}{12} = ₹\ 625$

Thus, prepaid insurance premium amount = ₹ 625.

(4) Find out Gross Profit/Gross Loss : Purchases ₹ 30,000, Sales ₹ 15,000, Carriage inward ₹ 2400, Opening stock ₹ 10,000, Purchase return ₹ 1000, Closing stock ₹ 36,000.

Solution :

Dr. **Trading Account (Partial)** **Cr.**

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Opening Stock		10,000	By Sales		15,000
To Purchase	30,000		By Closing Stock		36,000
Less : Purchase Return	1,000	29,000			
To Carriage Inward		2,400			
To Gross Profit		9,600			
		51,000			51,000

(5) Borrowed loan from Bank of Maharashtra ₹ 2,00,000 on 1st October, 2019 @15 % p.a. Calculate interest on bank loan for the year 2019 – 20 assuming that the financial year ends on 31st March, every year.

Solution :

From 1st October to 31st March, 6 months period interest on loan is to be calculated.

Interest $= I = \frac{PRN}{100}$

∴ Interest on loan $= 2{,}00{,}000 \times \frac{15}{100} \times \frac{6}{12} = ₹\ 15{,}000$

∴ Interest on loan on ₹ 2,00,000 for 6 months = ₹ 15,000

SOLVED PROBLEMS

Q. 1. From the following Trial Balance and Adjustments prepare Trading and Profit and Loss Account and Balance Sheet as on 31st March, 2019 for Mr A and B.

Trial Balance as on 31st March, 2019

Debit Balances	Amount (₹)	Credit Balances	Amount (₹)
Opening Stock	46,200	Capital Accounts :	
Purchases	1,20,000	A	1,20,000
Sundry Debtors	64,500	B	1,20,000
Furniture	30,300	Sales	1,80,000
Leasehold property	37,500	Bank Overdraft	15,000
Salaries	7,500	Interest	1,500
Wages	11,250	Sundry Creditors	30,750
Carriage	4,500		
Royalties	3,750		
Freight	1,050		
Stationery and Printing	1,575		
Travelling Expense	5,175		
Advertisement Expense (for 3 years)	45,000		
Investments	22,500		
Bad Debts	750		
Discount Allowed	2,700		
Cash in Hand	10,500		
Cash at Bank	30,000		
Fixed Deposits	22,500		
	4,67,250		4,67,250

Adjustments :

(1) Closing stock : Cost price ₹ 60,000, Market price ₹ 52,500.

(2) Interest on fixed deposit ₹ 1800 is still outstanding.

(3) Provide R.D.D. at 2.5 % on sundry debtors.

(4) Depreciate furniture by 5 %.

(5) Goods of ₹ 12,000 destroyed by fire and insurance company accepted claim of ₹ 9,000 only.

Solution : **In the books of Mr A and Mr B**

Dr. **Trading and Profit and Loss Account for the year ended on 31st March, 2019** **Cr.**

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Opening Stock		46,200	By Sales		1,80,000
To Purchase		120,000	By Closing Stock		52,500
To Wages		11,250	By Goods Destroyed by Fire		12,000
To Carriage		4,500			
To Royalties		3,750			
To Freight		1,050			
To Gross Profit c/d		57,750			
		2,44,500			2,44,500

To Discount Allowed		2,700	By Gross Profit b/d		57,750
To Salaries		7,500	By Interest		1,500
To Stationery and Printing		1,575	By O/s Interest on Fixed		
To Travelling Expense		5,175	Deposits		1,800
To Bad Debts	750				
Add : R.D.D. (New)	1613	2,363			
To Loss by Fire		3,000			
To Depreciation on Furniture		1,515			
To Advertisement Expenses	45,000				
Less : Prepaid Adv. Exp.	30,000	15,000			
To Net Profit					
(Transferred to Capital A/c's)					
Mr A	11,111				
Mr B	11,111	22,222			
		61,050			61,050

Balance Sheet as on 31st March, 2019

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital Accounts :			Leasehold Property		37,500
Mr A	1,20,000		Investments		22,500
Add : Net Profit	11,111	1,31,111	Closing Stock		52,500
Mr B	1,20,000		Cash in Hand		10,500
Add : Net Profit	11,111	1,31,111	Cash at Bank		30,000
Sundry Creditors		30,750	Prepaid Adv. Exp.		30,000
Bank Overdraft		15,000	Receivable Insurance Claim		9,000
			Fixed Deposits	22,500	
			Add : Receivable Interest	1,800	24,300
			Furniture	30,300	
			Less : Depreciation	1,515	28,785
			Sundry Debtors	64,500	
			Less : R.D.D. (New)	1,613	62,887
		3,07,972			3,07,972

Working Notes :

(1) Closing stock is to be consider at a cost price or market price whichever is less. It is valued at ₹ 52,500.

(2) Goods of ₹ 12,000 destroyed and insurance company accepted claim of ₹ 9,000, means ₹ 3,000 is loss for the firm. Insurance company accepted the claim, (not yet paid the amount) therefore, it is recorded on Asset side of Balance Sheet.

(3) Advertisement expense ₹ 45,000 is given for 3 years means for one year. we have to take $\frac{45,000}{3}$ = ₹ 15,000 as advt. exp. and ₹ 30,000 (45,000 – 15,000) is to be taken as prepaid advt. exp. (Asset side)

Q. 2. From the following Trial Balance of Parth and Zalak and given Adjustments, prepare Final Accounts for the year ending on 31st March, 2019.

Trial Balance as on 31st March, 2019

Debit Balances	Amount (₹)	Credit Balances	Amount (₹)
Land and Building	3,75,000	Capital Accounts :	
Plant and Machinery	2,25,000	Parth	4,05,000
Salaries	67,500	Zalak	3,00,000
Wages	52,500	Current Accounts :	
Motor Car	1,20,000	Parth	19,500
Office Expenses	39,000	Zalak	25,500
Purchases	1,87,500	Sales	4,35,000
Sales Returns	3,750	Purchase Returns	6,000
Bad Debts	1,500	Reserve for Bad Debts	9,000
Sundry Debtors	36,000	Sundry Creditors	90,000
Rent (Paid for 10 months)	18,000	Bills Payable	60,000
Bills Receivable	27,000	Bank Loan @ 18 % p.a.	30,000
Opening Stock	54,000	(Taken on 1st Jan. 2019)	
Insurance	5,400	Commission	8,550
Advertisement Expense	7,500		
Furniture	57,000		
Stationery and Printing	6,900		
Power and Fuel	15,000		
Patents	22,500		
Cash at Bank	27,000		
Cash in Hand	40,500		
	13,88,550		13,88,550

Adjustments :

(1) Closing stock is valued at ₹ 99,000.

(2) Write off ₹ 3,000 as further bad debts and maintain 5 % R.D.D. on debtors.

(3) Depreciate : Plant and Machinery by 10 %, Motor car by 15 %, Patents by 20 %.

(4) Furniture costing ₹ 12,000 sold for ₹ 7,500 was wrongly included in sales and remaining furniture is valued at ₹ 33,000.

(5) Outstanding expenses are : Wages ₹ 8,100, Salaries ₹ 6,750. Insurance premium is paid for the year ended 31st December, 2019.

(6) Goods worth ₹ 67,500 were destroyed by fire and insurance company accepted the claim for only ₹ 57,000.

(7) Sale of goods of ₹ 15,000 was wrongly considered as sale of machinery.

Solution : In the books of Parth and Zalak

Dr. Trading and Profit and Loss Account for the year ended on 31st March, 2019 **Cr.**

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Opening Stock		54,000	By Sales	4,35,000	
To Purchases	1,87,500		Less : Sales Returns	3,750	
Less : Purchase Returns	6,000	1,81,500		4,31,250	
To Wages	52,500		Less : Sale of Furniture	7,500	
Add : O/s Wages	8,100	60,600	(Wrongly recorded)		
To Power and Fuels		15,000		4,23,750	
To Gross Profit c/d		2,94,150	Add : Sale of Goods		
			(Unrecorded)	15,000	4,38,750
			By Goods Destroyed by Fire		67,500
			By Closing Stock		99,000
		6,05,250			6,05,250
To Salaries	67,500		By Gross Profit b/d		2,94,150
Add : O/s Salaries	6,750	74,250	By Commission		8,550
To Office Expense		39,000	By R.B.D.D. A/c		2,850
To Rent	18,000		(As per contra)		
Add : O/s Rent (2 months)	3,600	21,600			
To Stationery and Printing		6,900			
To Loss by Fire		10,500			
To Insurance	5,400				
Less : Prepaid Insurance	4,050	1,350			
To Advertisement Expense		7,500			
To R.B.D.D. A/c					
Bad Debts (Old)	1,500				
Add : Bad Debts (New)	3,000				
Add : R.D.D. (New)	1,650				
	6,150				
Less : R.D.D. (Old)	9,000	—			
(Transferred on Cr. side)	−2,850				
To Interest on Bank Loan		1350			
To Depreciation					
Plant and Machinery	24,000				
Motor Car	18,000				
Furniture	12,000				
Patents	4,500	58,500			
To Loss on Sale of Furniture		4,500			
To Net Profit (Transferred to Partners' Current A/cs)					
Parth	40,050				
Zalak	40,050	80,100			
		3,05,550			3,05,550

Dr. **Partners' Current Accounts** **Cr.**

Particulars	Parth (₹)	Zalak (₹)	Particulars	Parth (₹)	Zalak (₹)
To Balance c/d	59,550	65,550	By Balance b/d	19,500	25,500
			By Profit and Loss A/c	40,050	40,050
	59,550	65,550		59,550	65,550
			By Balance b/d	59,550	65,550

Balance Sheet as on 31st March, 2019

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital Accounts :			Land and Building		3,75,000
Parth	4,05,000		Plant and Machinery	2,25,000	
Zalak	3,00,000	7,05,000	Add : Sale of goods		
Current Accounts :			considered as sale of machinery	15,000	
Parth	59,550			2,40,000	
Zalak	65,550	1,25,100	Less : Depreciation	24,000	2,16,000
Bank Loan @ 18 %	30,000		Motor Car	1,20,000	
Add : O/s Interest on Loan	1,350	31,350	Less : Depreciation	18,000	1,02,000
			Furniture	57,000	
Sundry Creditors		90,000	Less : Sale of Furniture	12,000	
Bills Payable		60,000		45,000	
O/s Expenses :			Less : Depreciation	12,000	33,000
Rent	3,600		Patents	22,500	
Wages	8,100		Less : Depreciation	4,500	18,000
Salaries	6,750	18,450	Sundry Debtors	36,000	
			Less : Bad Debts (New)	3,000	
				33,000	
			Less : R.D.D. (New)	1,650	31,350
			Closing Stock		99,000
			Bills Receivable		27,000
			O/s Insurance Claim (For fire)		57,000
			Prepaid Insurance		4,050
			Cash at Bank		27,000
			Cash in Hand		40,500
		10,29,900			10,29,900

Working Notes :

(1) Interest on loan @18 % is calculated for 3 months. (i.e. 1/1/2019 to 31/3/2019)

$$I = \frac{PRN}{100} = 30{,}000 \times \frac{18}{100} \times \frac{3}{12} = ₹\ 1{,}350$$

(2) Net loss by fire = 67,500 – 57,000 = ₹ 10,500

(3) Depreciation on furniture = Book value – Value given in adj.

= 45,000 – 33,000 = ₹ 12,000

(4) Rent is paid for 10 months i.e. 2 months rent is outstanding.

(5) Insurance premium is paid upto 31st Dec., 2019.

i.e. 9 months insurance premium is prepaid.

$= 5{,}400 \times \frac{9}{12} = ₹\ 4{,}050$

(6) Loss on sale of furniture = Cost of furniture sold – Sale proceeds of furniture

= 12,000 – 7,500

= ₹ 4,500

Q. 3 From the following trial balance and adjustments of Rushabh and Yesha, you are required to prepare final accounts as on 31st March, 2019. Profit and Loss sharing ratio of partners is their capital ratio.

Trial Balance as on 31st March, 2019

Particulars (Name of Accounts)	Debit (₹)	Credit (₹)
Capital and Drawings :		
Rushabh	20,000	1,00,000
Yesha	14,000	50,000
Purchase and Sales	1,40,000	2,60,500
Debtors and Creditors	90,000	60,000
Sales Return and Purchase Return	2,000	3,000
Bills Receivable and Bills Payable	15,000	20,800
Cash Balance and Bank Overdraft	1,000	14,000
Bad Debts and Provision for Doubtful Debts	400	1,300
Wages and Outstanding Wages	35,000	2,000
Machinery	40,000	
Furniture	12,000	
Opening Stock of Goods	46,100	
Prepaid Insurance	200	
Salaries	23,000	
Insurance Premium	2,000	
Rent-Taxes	12,000	
Advertisement Expenses	2,900	
Goodwill	72,000	
Leasehold Building	14,000	
8 % Loan (From 1/11/18)	—	30,000
	5,41,600	5,41,600

Adjustments :

(1) Closing stock is of ₹ 1,10,000. It's market value is 20 % more than its value.

(2) Calculate interest on capital @ 6 % p.a.

(3) Interest on drawings to be charged from partners : Rushabh ₹ 900, Yesha ₹ 600

(4) Provision for doubtful debts is to be kept at 5 %.

(5) Outstanding expenses at the end of the year : Rent ₹ 300, Salary ₹ 950.

(6) Provide depreciation at 10 % on machinery and at 5 % on furniture.

(7) Write off ₹ 4,000 from leasehold building.

Solution : **In the books of Rushabh and Yesha**

Dr. **Trading and Profit and Loss Account for the year ended on 31st March, 2019** **Cr.**

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Opening Stock of Goods		46,100	By Sales	2,60,500	
To Purchases	1,40,000		Less : Sales Returns	2,000	2,58,500
Less : Purchase Return	3,000	1,37,000	By Closing Stock		1,10,000
To Wages		35,000			
To Gross Profit c/d		1,50,400			
		3,68,500			3,68,500
To Salaries	23,000		By Gross Profit b/d		1,50,400
Add : O/s Salary	950	23,950	By Interest on Drawings		
To Insurance Premium		2,000	Rushabh	900	
To Advertisement Expense		2,900	Yesha	600	1,500
To Rent-Taxes	12,000				
Add : O/s Rent	300	12,300			
To Interest on Loan (O/s)		1,000			
To Bad Debts (Old)	400				
Add : Provision for Doubtful Debts (New)	4,500				
	4,900				
Less : Provision for Doubtful Debts (Old)	1,300	3,600			
To Depreciation					
Machinery	4,000				
Furniture	600	4,600			
To Written off Leasehold Building		4,000			
To Interest on Capital					
Rushabh	6,000				
Yesha	3,000	9,000			
To Net Profit (Transferred to Partners' Capital A/c's)					
Rushabh	59,033				
Yesha	29,517	88,550			
		1,51,900			1,51,900

Balance Sheet as on 31st March, 2019

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital Account : Rushabh			Machinery	40,000	
Opening Balance	1,00,000		Less : Depreciation (10 %)	4,000	36,000
Add : Interest on Capital	6,000		Furniture	12,000	
Add : Net Profit	59,033		Less : Depreciation	600	11,400
	1,65,033		Leasehold Building	14,000	
Less : Drawings	20,000		Less : Written off	4,000	10,000
Less : Interest on Drawings	900	1,44,133	Goodwill		72,000
Capital Account : Yesha			Debtors	90,000	
Opening Balance	50,000		Less : Provision for		
Add : Interest on Capital	3,000		Doubtful Debts	4,500	85,500
Add : Net Profit	29,517		Bills Receivable		15,000
	82,517		Cash Balance		1,000
Less : Drawings	14,000		Prepaid Insurance		200
Less : Interest on Drawings	600	67,917	Closing Stock		1,10,000
8 % Loan (1/11/18)	30,000				
Add : O/s Interest on Loan	1,000	31,000			
Creditors		60,000			
Bills Payable		20,800			
Bank Overdraft		14,000			
Outstanding expenses :					
Wages	2,000				
Salary	950				
Rent	300	3,250			
		3,41,100			3,41,100

Working Notes :

(1) Consider closing stock value ₹ 1,10,000 as its market value is 20 % more.

(2) Interest on drawings : Record it on Cr. side of P & L A/c subtract it from capital. (As shown)

(3) Interest on 8 % loan is calculated for 5 months (i.e. 1/11/18 to 31/3/19)

$$I = \frac{PRN}{100} = 30{,}000 \times \frac{8}{100} \times \frac{5}{12} = \text{₹ } 1{,}000$$

(4) In the Trial Balance, following balances have credit balance :

Bills payable, Bank Overdraft, Provision for doubtful debts, 8 % Loan, etc.

(5) O/s wages – Cr. bal. – write it on Liability side of Balance Sheet.

(6) Prepaid insurance – Dr. bal. write it on Asset side of Balance Sheet.

SOLUTION TO TEXTUAL PROBLEMS

***Q. 1. Amitbhai and Narendrabhai are in Partnership Sharing Profits and Losses equally. From the following Trial Balance and Adjustments given below, you are required to prepare Trading and Profit and Loss Account for the year ended 31st March, 2019 and Balance Sheet as on that date.**

Trial Balance as on 31st March, 2019

Debit Balances	Amount (₹)	Credit Balances	Amount (₹)
Plant & Machinery	2,80,000	Capital A/c :	
Factory Building	75,000	Amitbhai	3,50,000
Sundry Debtors	28,700	Narendrabhai	3,00,000
Purchases	85,500	Sales	1,80,000
Bad Debts	500	Bills Payable	8,500
Sales Return	2,200	Discount	1,200
10 % Govt. Bond	40,000	Creditors	38,500
(Purchased on 1st Oct., 2018)		R.D.D.	2,700
Import Duty	1,800	Bank Loan	15,000
Legal Charges	2,000	Purchases Return	2,000
Motive Power	12,000		
Warehouse Rent	1,800		
Cash in Hand	20,000		
Cash at Bank	70,000		
Advertisement	10,000		
(for 2 years, w.e.f. 1st Jan., 2019)			
Salaries	3,800		
Rent	1,500		
Drawings :			
Amitbhai	2,400		
Narendrabhai	3,200		
Furniture	1,95,800		
Bills Receivable	20,700		
Freehold Property	41,000		
	8,97,900		8,97,900

Adjustments :

(1) Stock on hand on 31st March, 2019 was valued at ₹ 43,000.

(2) Uninsured goods worth ₹ 8,000 were stolen.

(3) Create R.D.D. at 2 % on sundry debtors.

(4) Mr Patil, our customer become insolvent and could not pay his debts of ₹ 500.

(5) Outstanding Expenses – Rent ₹ 800 and salaries ₹ 300.

(6) Depreciate Factory Building by ₹ 2,500 and Furniture by ₹ 1,800.

Solution :

In the books of Amitbhai and Narendrabhai

Dr. **Trading and Profit and Loss Account for the year ended on 31st March, 2019** **Cr.**

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Purchases	85,500		By Sales	1,80,000	
Less : Purchase Return	2,000	83,500	Less : Sales Return	2,200	1,77,800
To Import Duty		1,800	By Closing Stock		43,000
To Motive Power		12,000	By Goods Stolen Away		8,000
To Depreciation – Factory Building		2,500			
To Gross Profit c/d		1,29,000			
		2,28,800			2,28,800
To Warehouse Rent		1,800	By Gross Profit b/d		1,29,000
To R.B.D.D. A/C			By Discount		1,200
Bad debts	500		By O/s Interest on Govt. Bonds		2,000
Add : New Bad debts	500		By R.B.D.D. A/c		1,136
Add : New Reserve	564		(Excess Reserve)		
	1564		(2,700 – 1,564)		
Less : Old Reserve	2700				
To Legal Charges		2,000			
To Advertisement Expenses	10,000				
Less : Prepaid Adv. Exp.	8,750	1,250			
To Salaries	3,800				
Add : O/s Salaries	300	4,100			
To Rent	1,500				
Add : O/s Rent	800	2,300			
To Depreiciation on Furniture		1,800			
To Loss due to Theft		8,000			
To Net Profit Transferred to Capital A/c					
Amitbhai	56,043				
Narendrabhai	56,043	1,12,086			
		1,33,336			1,33,336

Balance Sheet as on 31st March, 2019

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital Account : Amitbhai			Plant & Machinery		2,80,000
Opening Balance	3,50,000		Factory Building	75,000	
Add : Net Profit	56,043		Less : Depreciation	2,500	72,500
Less : Drawings	2,400	4,03,643	Closing Stock		43,000
Capital Account : Narendrabhai			Sundry Debtors	28,700	
Opening Balance	3,00,000		Less : B.D. (New)	500	
Add : Net Profit	56,043			28,200	
Less : Drawings	3,200	3,52,843	Less : R.D.D. (New)	564	27,636

Bills Payable		8,500	10 % Govt. Bond		40,000
Creditors		38,500	O/s Interest on Govt. Bond		2,000
Bank Loan		15,000	Cash in Hand		20,000
Outstanding expenses			Cash at Bank		70,000
Rent	800		Prepaid Advertisement Expense		8,750
Salaries	300	1,100	Furniture	1,95,800	
			Less : Depreciation	1,800	1,94,000
			Bills Receivable		20,700
			Freehold property		41,000
		8,19,586			8,19,586

Notes :

(1) Import duty, Motive power and Depreciation on Factory building are recorded in the Trading A/c.

(2) 10 % govt. bond is an investment. It was purchased on 1 – 10 – 2018.

∴ Interest is calculated for six months.

Interest on Govt. Bond $= \frac{40,000}{1} \times \frac{6}{12} \times \frac{10}{100} = ₹\ 2,000$

(3) Adv. exp. paid for 2 years from 01 – 01 – 2019. Upto 31 – 3 – 2019, 3 months adv. exp. is written off to Profit and Loss A/c. It is calculated as below :

$10,000 \times \frac{3}{24} = ₹\ 1,250$

∴ Prepaid adv. exp. = 10,000 – 1,250 = ₹ 8,750

***Q. 2. From the following Trial Balance of M/s Mitesh and Mangesh, you are required to prepare Trading and Profit and Loss Account for the year ended 31st March, 2019 and Balance Sheet as on that date.**

Trial Balance as on 31st March, 2019

Debit Balances	Amount (₹)	Credit Balances	Amount (₹)
Stock as on (1/4/2018)	25,000	Sundry Creditors	38,000
Buiding	48,500	Sales	1,75,000
Carriage	1,780	Capital :	
Factory Insurance	2,700	Mitesh	1,50,000
Postage	1,600	Mangesh	50,000
Bills Receivable	13,700	Outstanding Salaries	2,000
Sundry Debtors	52,200	Bills Payable	18,000
Ruturn Inward	1,600	Return Outward	1,800
Purchases	68,900		
Audit fees	1,800	Current A/cs :	
Loose tools	32,000	Mitesh	3,000
Manufacturing Expenses	1,820	Mangesh	2,000
Electricity Charges	2,600		
General Expenses	3,400		
Export Duty	1,000		
Cash in Hand	75,000		

Bank Balance	29,000		
Conveyance	4,100		
Furniture	64,000		
Salaries	2,000		
Rent, Rate & Taxes	3,700		
Drawings :			
Mitesh	1,200		
Mangesh	2,200		
	4,39,800		4,39,800

Adjustments :

(1) Mitesh and Mangesh are sharing profit and losses in the ratio 3 : 1.
(2) Partners are entitled to get commission @1 % each on gross profit.
(3) The closing stock is valued at ₹ 23,700.
(4) Outstanding expenses – Audit fees ₹ 400; Carriage ₹ 600.
(5) Building is valued at ₹ 46,500.
(6) Furniture is depreciated by 5%.
(7) Provide interest on partner's capital at 2.5 % p.a.
(8) Goods of ₹ 900 were taken by Mangesh for his personal use.
(9) Write off ₹ 1,000 as Bad debts and maintain R.D.D. at 3 % on Sundry Debtors.

Solution : **In the books of M/s Mitesh and Mangesh**

Dr. Trading and Profit and Loss Account for the year ended on 31st March, 2019 Cr.

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Opening Stock		25,000	By Sales	1,75,000	
To Purchase	68,900		Less : Sales Return	1,600	1,73,400
Less : Purchase Return	1,800	67,100	By Closing Stock		23,700
To Factory Insurance		2,700	By Goods Withdrawn for personal use Mangesh		900
To Manufacturing Expenses		1,820			
To Carriage	1,780				
Add : O/s Carriage	600	2,380			
To Gross Profit c/d		99,000			
		1,98,000			1,98,000
To Postage		1,600	By Gross Profit b/d		99,000
To Audit Fees	1,800				
Add : O/s Audit Fees	400	2,200			
To Electricity Charges		2,600			
To General Expenses		3,400			
To Export Duty		1,000			
To Conveyance		4,100			
To Salaries		2,000			
To Rent, Rate & Taxes		3,700			

To Depreciation on :					
Building	2,000				
Furniture	3,200	5,200			
To R.B.D.D. A/c		1,536			
New Bad debts	1,000				
Add : New Reserve	1,536	2,536			
To Interest on Capital A/cs :					
Mitesh	3,750				
Mangesh	1,250	5,000			
To Commission to Partners' A/c :					
Mitesh	990				
Mangesh	990	1,980			
To Net Profit (Transferred to Partners' Current A/cs)					
Mitesh	47,763				
Mangesh	15,921	63,684			
		99,000			99,000

Dr. **Partners' Current Accounts** **Cr.**

Particulars	Mitesh (₹)	Mangesh (₹)	Particulars	Mitesh (₹)	Mangesh (₹)
To Drawings	1,200	2,200	By Balance b/d	3,000	2,000
To Additional Drawings (Goods)	—	900	By Profit and Loss A/c (Commission)	990	990
To Balance c/d	54,303	17,061	By Profit and Loss A/c (Interest on Capital)	3,750	1,250
			By Profit and Loss A/c	47,763	15,921
	55,503	20,161		55,503	20,161
			By Balance b/d	54,303	17,061

Balance Sheet as on 31st March, 2019

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital Accounts :			Building	48,500	
Mitesh	1,50,000		Less : Depreciation	2,000	46,500
Mangesh	50,000	2,00,000	Bills Receivable		13,700
Current Accounts :			Sundry Debtors	52,200	
Mitesh	54,303		Less : B.D. (New)	1,000	
Mangesh	17,061	71,364		51,200	
			Less : R.D.D. (New)	1,536	49,664
Sundry Creditors		38,000	Loose Tools		32,000
Bills Payable		18,000	Cash in Hand		75,000

Outstanding expenses			Bank Balance		29,000
Salaries	2,000		Furniture	64,000	
Audit fees	400		Less : Depreciation	3,200	60,800
Carriage	600	3,000	Closing Stock		23,700
		3,30,364			3,30,364

Working Notes :

(1) In this problem, Current Account balances are given. So, total amount of fixed capital is directly shown in the Liabilities side of Balance Sheet. Effects of adjustments related to commission to partners, interest on capital, goods withdrawn by Mangesh are given in the Current Account. Closing balances of Current Account are shown separately on the Liability side of Balance Sheet.

(2) Building is valued at ₹ 46,500 whereas opening balance of Building given is ₹ 48,500. Therefore, difference of amount of ₹ 2,000 (48,500 – 46,500) is nothing but Depreciation charged on Building.

(3) Return Inward ⇒ Sales Return
Return Outward ⇒ Purchase Return

(4) Commission payable to partners :

$$\text{Mitesh} = 1\% \text{ on Gross Profit} = \frac{1}{100} \times \frac{99{,}000}{1} = ₹\ 990/\text{-}$$

$$\text{Mangesh} = 1\% \text{ on Gross Profit} = \frac{1}{100} \times 99{,}000 = ₹\ 990/\text{-}$$

***Q. 3. From the following Trial Balance and Adjustments given below of Reena and Aarti, you are required to prepare Trading and Profit and Loss Account for the year ended 31st March, 2019 and Balance Sheet as on that date.**

Trial Balance as on 31st March, 2019

Debit Balances	Amount (₹)	Credit Balances	Amount (₹)
Purchases	35,500	Sales	58,200
Sundry Debtors	40,000	Sundry Creditors	25,700
Sales Returns	1,000	Purchase Returns	500
Opening Stock	18,100	R.D.D.	800
Bad Debts	500	Discount	50
Land & Building	25,000	Commission	250
Furniture	20,000	Capital :	
Discount	1,000	Reena	50,000
Royalties	700	Aarti	30,000
Rent	1,900		
Salaries	3,000		
Wages	800		
Insurance	1,500		
Drawings :			
Reena	2,000		
Aarti	1,000		
Cash at Bank	11,500		
Cash in Hand	2,000		
	1,65,500		1,65,500

Adjustments :

(1) Closing stock valued at ₹ 22,000.

(2) Write off ₹ 900 for bad & doubtful debts and create a provision for reserve for doubtful debts ₹ 1,000.

(3) Create a provision for discount on debtors @ 3 % and on creditors @ 5%.

(4) Outstanding expenses : Wages ₹ 700 and Salaries ₹ 800.

(5) Insurance is paid for 15 months, w.e.f. 1st April, 2018.

(6) Depreciate land and building @ 5 %.

(7) Reena & Aarti are sharing Profits & Losses in their Capital Ratio.

Solution : **In the books of Reena and Aarti**

Dr. Trading and Profit and Loss Account for the year ended on 31st March, 2019 Cr.

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Opening Stock		18,100	By Sales	58,200	
To Purchases	35,500		Less : Sales Return	1,000	57,200
Less : Purchase Return	500	35,000	By Closing Stock		22,000
To Royalties		700			
To Wages	800				
Add : O/s Wages	700	1,500			
To Gross Profit c/d		23,900			
		79,200			79,200
To Rent		1,900	By Gross Profit b/d		23,900
To Salaries	3,000		By Commission		250
Add : O/s Salaries	800	3,800	By Discount		50
To Insurance	1,500		By R.D.C. (New)		1,285
Less : Prepaid Ins.	300	1,200			
To Depreciation on Land and Building		1,250			
To R.B.D.D. A/c					
Bad debts	500				
Add : New Bad debts	900				
Add : New Reserve	1,000				
	2,400				
Less : Old Reserve	800	1,600			
To Reserve for Discount on Debtors A/c					
Discount	1,000				
Add : New Reserve for Discount	1,143	2,143			
To Net Profit (Transferred to Capital A/cs)					
Reena	8,495				
Aarti	5,097	13,592			
		25,485			25,485

Balance Sheet as on 31st March, 2019

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital Account : **Reena**			Land and Building	25,000	
Opening Balance	50,000		Less : Depreciation	1,250	23,750
Add : Net Profit	8,495		Furniture		20,000
Less : Drawings	2,000	56,495	Closing Stock		22,000
Capital Account : **Aarti**			Sundry Debtors	40,000	
Opening Balance	30,000		Less : Bad Debts (New)	900	
Add : Net Profit	5,097			39,100	
Less : Drawings	1,000	34,097	Less : Provision for		
			Doubtful Debts (New)	1,000	
Sundry Creditors	25,700			38,100	
Less : Provision for Discount on			Less : Provision for		
creditors	1,285	24,415	Discount on Debtors 3%	1,143	36,957
Outstanding expenses			Prepaid Insurance Premium		300
Wages	700		Cash at Bank		11,500
Salaries	800	1,500	Cash in Hand		2,000
		1,16,507			1,16,507

Working Notes :

(1) Insurance premium ₹ 1,500 is paid for 15 months. i.e. prepaid insurance premium for 3 months = ₹ 300.

(2) Reserve for Discount on Debtors = 3% on (Debtors – New Bad debts – New Reserve)

$$= \frac{3}{100}(40{,}000 - 900 - 1{,}000) = \frac{3}{100} \times (40{,}000 - 1{,}900) = \frac{3}{100} \times 38{,}100 = ₹\ 1{,}143$$

(3) Reserve for Discount on Creditors = 5% on (Value of Creditors)

$$= \frac{5}{100} \times 25{,}700 = ₹\ 1{,}285$$

(4) Profit and Loss ratio = Capital ratio = 50,000 : 30,000 = 5 : 3

***Q. 4. From the following Trial Balance of M/s Meera and Madhav. Prepare Trading and Profit and Loss Account for the year ended 31st March, 2019 and Balance Sheet as on that date.**

Trial Balance as on 31st March, 2019

Debit Balances	Amount (₹)	Credit Balances	Amount (₹)
Stock (1/4/2018)	25,000	Bank Overdraft	5,000
Debtors	80,500	Bills Payable	12,500
Bills Receivable	10,000	Creditors	68,000
Purchases	2,08,500	Sales	3,25,000
Returns	1,000	Outstanding Rent	2,000
Carriage Inward	3,000	Unpaid Wages	1,500
Carriage Outward	4,500	Capital :	
Motor Vehicle	55,000	Meera	75,000
General Expenses	1,800	Madhav	75,000
Export Duty	900	Purchase Return	1,000
Advertisement			
(For 3 years from 1/10/2018)	4,800		

Printing & Stationery	1,200	
Drawings :		
Meera	3,500	
Madhav	2,000	
Leasehold Premises	1,10,000	
Cash at Bank	45,000	
Furniture	8,300	
	5,65,000	5,65,000

Adjustments :

(1) Closing stock is valued at ₹ 32,000.

(2) Provide provision for doubtful debts ₹ 2,000.

(3) Create reserve for discount on debtors @ 3 %.

(4) Value of leasehold premises on 31st March, 2019 ₹ 1,00,000.

(5) Outstanding expenses : Printing & stationery ₹ 500.

Solution : **In the books of M/s Meera and Madhav**

Dr. Trading and Profit and Loss Account for the year ended on 31st March, 2019 Cr.

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Opening Stock		25,000	By Sales	3,25,000	
To Purchase	2,08,500		Less : Sales Return	1,000	3,24,000
Less : Purchase Return	1,000	2,07,500	By Closing Stock		32,000
To Carriage Inward		3,000			
To Gross Profit c/d		1,20,500			
		3,56,000			3,56,000
To Carriage Outward		4,500	By Gross Profit b/d		1,20,500
To General Expenses		1,800			
To Export Duty		900			
To Advertisement	4,800				
Less : Prepaid Advt.	4,000	800			
To Printing & Stationery	1,200				
Add : O/s Printing & Stationery	500	1,700			
To Written off Leasehold Premises		10,000			
To Provision for Doubtful debts (New)		2,000			
To R.D.D. (New)		2,355			
To Net Profit (Transferred to Capital A/c)					
Meera	48,223				
Madhav	48,222	96,445			
		1,20,500			1,20,500

Balance Sheet as on 31st March, 2019

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital Account : **Meera**			Motor Vehicle		55,000
Opening Balance	75,000		Prepaid Advt. Expense		4,000
Add : Net Profit	48,223		Leasehold Premises	1,10,000	
Less : Drawings	3,500	1,19,723	Less : Written off	10,000	1,00,000
			Closing Stock		32,000
Capital Account : **Madhav**			Debtors	80,500	
Opening Balance	75,000		Less : Provision for Doubtful Debts	2,000	
Add : Net Profit	48,222				
Less : Drawings	2,000	1,21,222		78,500	
Bank Overdraft		5,000	Less : R.D.D. (New)	2,355	76,145
Bills Payable		12,500	Bills Receivable		10,000
Creditors		68,000	Cash at Bank		45,000
O/s Rent		2,000	Furniture		8,300
Unpaid Wages		1,500			
O/s Stationery & Printing		500			
		3,30,445			3,30,445

Working Notes :

(1) Advertisement expenses written off to Profit and Loss account during the year 2018–19 for six months i.e. from 1/10/18 to 31/03/19.

Advertisement expenses W/off = (Advertisement bill paid) $\times \frac{1}{3} \times \frac{6}{12} = 4{,}800 \times \frac{1}{3} \times \frac{6}{12} =$ ₹ 800.

Prepaid advertisement = 4,800 – 800 = ₹ 4,000.

(2) Reserve for Discount on Debtors = 3% (Balance in debtors) $= \frac{3}{100}(80{,}500 - 2{,}000) = \frac{3}{100} \times 78{,}500$

= ₹ 2,355.

(3) Difference of opening balance (₹ 1,10,000) and closing balance (₹ 1,00,000) for leasehold premises is to be considered as written off on leasehold premises.

***Q. 5. Sucheta & Gayatri are partners sharing Profit and Losses in the ratio 3 : 2. From the following Trial Balance and additional information you are required to prepare Trading and Profit and Loss Account for the year ended 31st March, 2019 and Balance Sheet as on that date.**

Trial Balance as on 31st March, 2019

Particulars	Debit (₹)	Credit (₹)
Purchases & Sales	65,000	1,85,000
Works Manager's Salary	2,300	
Capital – Sucheta		75,000
– Gayatri		40,000
Opening Stock	18,700	
Debtors & Creditors	47,500	35,000
Wages & Salaries	4,000	

Bills Receivable	22,000	
Bills Payable		27,300
Discount		400
Motive Power	1,350	
Custom duty	1,500	
Interest		1,300
Unproductive Wages	3,000	
Audit fees	2,500	
Rent	1,800	
Conveyance	2,000	
Goodwill	25,000	
Copyrights	20,000	
Building	88,000	
Partner (Sucheta's) Loan		6,150
Investments	40,000	
Cash at Bank	26,000	
	3,70,650	3,70,650

Adjustments :

(1) Stock on 31st March, 2019 was valued at ₹ 19,700.

(2) Goods costing ₹ 3,000 distributed as free sample.

(3) Motive power includes ₹ 500 paid for deposit of Power Meter.

(4) Depreciate building @ 5 %.

(5) Write off ₹ 2000 for bad debts and maintain R.D.D. at 3% on debtors.

(6) Bills receivable included dishonoured of Bill of ₹ 4,000.

Solution : **In the books of Sucheta and Gayatri**

Dr. **Trading and Profit and Loss Account for the year ended on 31st March, 2019** **Cr.**

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Opening Stock		18,700	By Sales		1,85,500
To Purchase		65,000	By Goods Distributed as Free Sample		3,000
To Works Manager's Salary		2,300			
To Wages & Salaries		4,000	By Closing Stock		19,700
To Motive Power	1,350				
Less : Deposit for Power Meter	500	850			
To Custom Duty		1,500			
To Gross Profit c/d		1,15,850			
		2,08,200			2,08,200
To Unproductive Wages		3,000	By Gross Profit b/d		1,15,850
To Audit Fees		2,500	By Discount		400
To Rent		1,800	By Interest		1,300
To Conveyance		2,000			
To O/s Interest on Sucheta's Loan		369			

To Advertisement Expenses		3,000			
(Goods distributed as samples)					
To Depreciation on Building		4,400			
To R.B.D.D A/c					
Bad debts (New)	2000				
Add : New Reserve	1,485	3,485			
To Net Profit (Transferred to Capital A/cs)					
Sucheta	58,198				
Gayatri	38,798	96,996			
		1,17,550			1,17,550

Balance Sheet as on 31st March, 2019

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital Account : **Sucheta**			Deposit Power Meter		500
Opening Balance	75,000		Building	88,000	
Add : Net Profit	58,198	1,33,198	Less : Depreciation	4,400	83,600
Capital Account : **Gayatri**			Debtors	47,500	
Opening Balance	40,000		Add : Dishonoured Bill	4,000	
Add : Net Profit	38,798	78,798		51,500	
Sucheta's Loan	6,150		Less : Bad Debts (New)	2,000	
Add : O/s Int. on Loan	369	6,519		49,500	
Creditors		35,000	Less : R.D.D. (New) @ 3%	1,485	48,015
Bills Payable		27,300	Bills Receivable	22,000	
			Less : Dishonoured Bill	4,000	18,000
			Goodwill		25,000
			Copy Rights		20,000
			Investments		40,000
			Closing Stock		19,700
			Cash at Bank		26,000
		2,80,815			2,80,815

Working Notes :

(1) Rate of interest on partner's loan is not mentioned, therefore interest on loan is calculated at 6 % p.a.

$$\therefore \text{ Interest on Sucheta's Loan} = 6{,}150 \times 1 \times \frac{6}{100} = ₹\ 369$$

(2) Add dishonoured bill amount to debtors amount and then calculate B.D. and R.D.D.

(3) Subtract dishonoured bill amount from bills receivable amount.

Q. 6. Archana and Prerana are partners, sharing Profits and Losses in the ratio 2 : 1 with the help of following Trial Balance and Adjustments given below. You are required to prepare Trading and Profit and Loss Account for the year ended 31st March, 2019 and Balance Sheet as on that date.

Debit Balances	Amount (₹)	Credit Balances	Amount (₹)
Stock (1/4/2018)	8,560	Capital :	
Patents	2,000	Archana	40,000
Sundry Debtors	18,500	Prerana	20,000
Stock of Stationery	3,000	Other Loans	3,000
Trade Mark	2,000	Reserve Fund	1,000
Bills Receivable	6,300	Sundry Creditors	17,500
Electricity Charges	1,450	Bills Payable	5,000
Wages	950	Purchase Return	1,000
Heating & Lighting	1,000	R.D.D.	500
Trade Expenses	850	Sales	30,200
Sales Return	400	Interest	310
Land & Building	22,000		
Furniture	13,000		
Cash at Bank	5,000		
Investments	7,500		
Drawings :			
Archana	1,200		
Prerana	900		
Bad debts	200		
Purchases	23,700		
	1,18,510		1,18,510

Adjustments :

(1) Stock on 31st March, 2019 is valued at Cost Price ₹ 12,000 and Market Price ₹ 17,000.

(2) Our customer Mr Shekhar failed to pay his dues of ₹ 800.

(3) 1/8th of Patents are to be written off.

(4) A part of Furniture ₹ 5,000 is purchased on 1st Oct., 2018.

(5) Depreciation on Land & Building 10 % and on Furniture 5 %.

(6) Outstanding Expenses Wages ₹ 300 and Electricity Charges ₹ 200.

(7) Allow Interest on Capital 3 %.

Solution : **In the books of Archana and Prerna**

Dr. **Trading and Profit and Loss Account for the year ended on 31st March, 2019** **Cr.**

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Opening Stock		8,560	By Sales	30,200	
To Purchases	23,700		Less : Sales Return	400	29,800
Less : Purchase Return	1,000	22,700	By Closing Stock		12,000
To Wages	950				
Add : O/s Wages	300	1,250			
To Heating & Lighting		1,000			
To Gross Profit c/d		8,290			
		41,800			41,800

To Electricity Charges	1,450		By Gross Profit b/d		8,290
Add : O/s Ele. Ch.	200	1,650	By Interest		310
To Trade Expenses		850			
To R.B.D.D A/c					
Bad debts	200				
Add : New Bad debts	800				
Less : Old Reserve	1,000	500			
To Written off Patents	500	250			
To Depreciation					
Furniture	525				
Land and Building	2,200	2,725			
To Interest on Capital					
Archana	1,200				
Prerna	600	1,800			
To Net Profit					
(Transferred to Capital A/c)					
Archana	550				
Prerna	275	825			
		8,600			8,600

Balance Sheet as on 31st March, 2019

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital Account : **Archana**			Patents	2,000	
Opening Balance	40,000		Less : Written off	250	1,750
Add : Int. on Capital	1,200		Furniture	13,000	
Add : Net Profit	550		Less : Depreciation		
	41,750		(400 + 125)	525	12,475
Less : Drawings	1,200	40,550	Land and Building	22,000	
Capital Accouts : **Prerna**			Less : Depreciation	2,200	19,800
Opening Balance	20,000		Stock of Stationery		3,000
Add : Int. on Capital	600		Closing Stock		12,000
Add : Net Profit	275		Sundry Debtors	18,500	
	20,875		Less : Bad Debts (New)	800	17,700
Less : Drawings	900	19,975	Trade Mark		2,000
Other Loans		3,000	Bills Receivable		6,300
Reserve Fund		1,000	Cash at Bank		5,000
Sundry Creditors		17,500	Investments		7,500
Bills Payable		5,000			
Outstanding Expenses					
Wages	300				
Electricity Charges	200	500			
		87,525			87,525

Working Notes :

(1) Stationery stock is an asset.

(2) Depreciation on furniture :

13,000

8,000 (Op. Bal.)	5,000 (Pur. on 01/10/18)
$8{,}000 \times \frac{5}{100}$ (Depr. for full year) = ₹ 400	$5{,}000 \times \frac{6}{12} \times \frac{5}{100}$ (Depr. for six months) = ₹ 125

∴ Total depr. = 400 + 125 = ₹ 525

(3) $\frac{1}{8}$ patents to be written off = $2{,}000 \times \frac{1}{8}$ = ₹ 250.

(4) As no other expenses are given, Trade Expense is recorded in Profit and Loss Account.

Q. 7. Satish and Pramod are partners. Prepare Trading Account and Profit and Loss Account for the year 31st March, 2019. You have to find out Gross Profit and Net Profit only.

Trial Balance as on 31st March, 2019

Debit Balances	Amount (₹)	Credit Balances	Amount (₹)
Stock (1/4/2018)	8,700	Sales	68,000
Purchases	18,300	Dividend	2,000
Wages	1,000	Purchases Return	500
Insurance	800	Sundry Creditors	13,000
Unproductive Wages	1,400	10 % Bank Loan	8,000
Warehouse Rent	600	(w.e.f. 1/7/2018)	
Carriage Outward	1,200	Other Receipts	1,000
Sales Return	600		
Export Duty	1,400		
Customs Duty	800		
Sundry Debtors	40,000		
Investments	15,700		
Factory Rent	1,600		
Postage & Telegram	400		
	92,500		92,500

Adjustments :

(1) The Closing stock is valued at ₹ 15,400.

(2) Outstanding wages ₹ 500.

(3) Create provision for Bad debts ₹ 800 and maintain R.D.D. 3 % on Sundry Debtors.

(4) Goods of ₹ 1,800 distributed as a free sample.

(5) Goods of ₹ 2,000 were sold and delivered on 31st March, 2019 but no entry is passed in the Books of Account.

Solution : **In the books of Satish and Pramod**

Dr. **Trading and Profit and Loss Account for the year ended on 31st March, 2019** **Cr.**

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Opening Stock		8700	By Sales	68,000	
To Purchases	18,300		Less : Sales Return	600	
Less : Purchase Return	500	17,800		67,400	
To Wages	1,000		Add : Unrecorded Sales	2,000	69,400
Add : O/s Wages	500	1,500	By Closing Stock		15,400
To Custom Duty		800	By Goods Distributed as		
To Factory Rent		1,600	Free Samples		1,800
To Gross Profit c/d		56,200			
		86,600			86,600
To Advertisement Expenses		1,800	By Gross Profit b/d		56,200
To Insurance		800	By Dividend		2,000
To Unproductive Wages		1,400	By Other Receipts		1,000
To Carriage Outward		1,200			
To Warehouse Rent		600			
To Export Duty		1,400			
To Postage & Telegram		400			
To O/s Interest on Bank Loan		600			
To R.B.D.D A/c					
Bad debts	—				
Add : New Bad debts	800				
Add : New Reserve	1,236	2,036			
To Net Profit (Transferred to Capital A/cs)					
Satish	24,482				
Pramod	24,482	48,964			
		59,200			59,200

Working Notes :

(1) Here only gross profit and net profit is to be find out. Therefore, Balance Sheet is not prepared.

(2) Interest on 10 % bank loan is calculated for 9 months (From 1/7/2018 to 31/3/2019)

$$I = \frac{PRN}{100} = 8,000 \times \frac{10}{100} \times \frac{9}{12} = ₹\ 600$$

(3) Goods distributed as free samples is an advertisement expense for business.

(4)

Sundry Debtors	40,000
Add : Unrecorded Sales	2,000
Less : Provision for Bad Debts	800
	41,200
Less : R.D.D. (New) (3 % of 41,200)	1,236
	39,964

***Q. 8. Nana and Nani are partners in Partnership Firm sharing Profits and Losses equally. You are required to give effects of Adjustments in Profit & Loss A/c and Balance Sheet with the help of following information.**

Trial Balance as on 31st March, 2019

Debit Balances	Amount (₹)	Credit Balances	Amount (₹)
Insurance	15,000	Capital A/cs :	
Land and Building	50,000	Nana	50,000
(Addition of ₹ 20,000 w.e.f. 1st July, 2018)		Nani	50,000
Salaries	5,000	10 % Bank Loan taken on 1st Oct., 2018	30,000
Export Duty	2,500	Interest	1,500
Interest	1,000	Bills Payable	8,000
Furniture	40,000		
Debtors	26,000		
	1,39,500		1,39,500

Adjustments :

(1) Gross profit amounted to ₹ 34,500.

(2) Insurance paid for 15 months w.e.f. 1 – 4 – 2018.

(3) Depreciate Land and Building at 10 % p.a. and Furniture at 5 % p.a.

(4) Write off ₹ 1,000 for Bad debts and maintain R.D.D. at 5 % on Sundry debtors.

(5) Closing stock is valued at ₹ 34,500.

Solution : **In the books of Nana and Nani**

Dr. **Profit and Loss Account for the year ended on 31st March, 2019** **Cr.**

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Insurance	15,000		By Gross Profit b/d		34,500
Less : Prepaid Insurance	3,000	12,000	By Interest		1,500
To Depreciation					
Land & Building	4,500				
Furniture	2,000	6,500			
To Salaries		5,000			
To Export Duty		2,500			
To Interest		1,000			
To O/s Interest on Bank Loan		1,500			
To R.B.D.D A/c					
New Bad debts	1,000				
Add : New Reserve	1,250	2,250			
To Net Profit (Transferred to Capital A/c)					
Nana	2,625				
Nani	2,625	5,250			
		36,000			36,000

Balance Sheet as on 31st March, 2019

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital Account : **Nana**			Land and Building	30,000	
Opening Balance	50,000		Add : Purchased on 1/07/18	20,000	
Add : Net Profit	2,625	52,625		50,000	
Capital Account : **Nani**			Less : Depreciation	4,500	45,500
Opening Balance	50,000		Furniture	40,000	
Add : Net Profit	2,625	52,625	Less : Depreciation	2,000	38,000
10 % Bank Loan	30,000		Debtors	26,000	
Add : O/s Interest on Bank Loan	1,500	31,500	Less : Bad Debts (New)	1,000	
Bills Payable		8,000		25,000	
			Less : R.D.D. (New) @ 5%	1,250	23,750
			Closing Stock		34,500
			Prepaid Insurance		3,000
		1,44,750			1,44,750

Working Notes :

(1) Here, Profit and Loss Account and Balance Sheet are to be prepared. Therefore, Trading Account is not prepared. Gross profit (given) is recorded on Credit side of Profit and Loss Account.

(2) Land and Building

30,000 (Op. Bal.)	20,000 (Add on 1/7/2018)
Depr. $= 30{,}000 \times \frac{10}{100} =$ ₹ 3,000	Depr. $= 20{,}000 \times \frac{10}{100} \times \frac{9}{12} =$ ₹ 1,500

Total Depreciation = ₹ 4,500

(3) Interest on 10 % bank loan is calculated for 6 months. (From 1/10/2018 to 31/3/2019)

$$I = \frac{PRN}{100} = 30{,}000 \times \frac{10}{100} \times \frac{6}{12} = ₹\ 1{,}500$$

(4) Prepaid insurance $= \frac{3}{15} \times$ (Insurance Amount) $= \frac{3}{15} \times 15{,}000 =$ ₹ 3,000

(5) RDD = 5% on (Debtors – New Bad debts) $= \frac{5}{100} \times (26{,}000 - 1{,}000) = \frac{5}{100} \times 25{,}000 =$ ₹ 1,250

***Q. 9. Sun and Moon are partners in Partnership Firm sharing Profits and Losses equally. You are required to give effects of Adjustments with the help of following information :**

Trial Balance as on 31st March, 2019

Debit Balances	Amount (₹)	Credit Balances	Amount (₹)
Land & Building	40,000	Capital A/c	
Furniture	18,000	Sun	33,500
Machinery	40,000	Moon	33,500
(Purchased on 1/7/18)		Current A/c : Sun	6,000
Goodwill	2,000	Sundry Creditors	25,000
Wages	2,000	Bank Overdraft	10,000

Current A/c : Moon	4,000	Reserve Fund	5,000
8 % Debentures	8,000	Provident Fund	5,000
(Purchased on 1/10/18)			
Provident Fund Investment	3,500		
Stock of Postal Stamps	500		
	1,18,000		1,18,000

Adjustments :

(1) Partners are entitled to get salary ₹ 6,000 p.a. in addition in their profit & loss sharing.

(2) Depreciation on Land & Building, Furniture and Machinery @ 10 %, 5% and 3 % respectively.

(3) Interest on Capital 5 % p.a.

(4) Closing stock ₹ 60,743.

(5) Wages included ₹ 1,000 as advance given to workers.

(6) Interest due but not paid ₹ 800.

(7) Total net profit amounted to ₹ 38,113.

You are required to prepare Balance Sheet and Partners' Current A/cs only.

Solution : **In the books of Sun and Moon**

Dr. **Partner's Current Account** **Cr.**

Particulars	Sun (₹)	Moon (₹)	Particulars	Sun (₹)	Moon (₹)
To Balance b/d	—	4,000	By Balance b/d	6,000	—
			By Profit and Loss A/c (Share in Net Profit)	19,056	19,057
			By Profit and Loss A/c (Partners Salary)	6,000	6,000
To Balance c/d	32,731	22,732	By Profit and Loss A/c (Interest on Capital)	1,675	1,675
	32,731	26,732		32,731	26,732
			By Balance b/d	32,731	22,732

Balance Sheet as on 31st March, 2019

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital Accounts :			Land & Building	40,000	
Sun	33,500		Less : Depreciation	4,000	36,000
Moon	33,500	67,000	Furniture	18,000	
Current A/cs :			Less : Depreciation	900	17,100
Sun	32,731		Machinery	40,000	
Moon	22,732	55,463	Less : Depreciation	900	39,100
Sundry Creditors		25,000	Goodwill		2,000
Bank Overdraft		10,000	8 % Debentures	8,000	
Reserve Fund		5,000	Add : O/s Interest	320	8,320
Provident Fund		5,000	Provident Fund Investments		3,500

O/s Interest		800	Stock & Postal Stamps		500
			Closing Stock		60,743
			Advance to Workers		1,000
		1,68,263			1,68,263

Working Notes :

(1) Depreciation on machinery is calculated for 9 months. (i.e. from 1/7/18 to 31/3/19)

$$\text{Depreciation} = 40{,}000 \times \frac{3}{100} \times \frac{9}{12} = ₹\ 900$$

(2) Interest on 8 % debentures, calculated for 6 months. (i.e. from 1/10/18 to 31/3/19)

$$I = \frac{PRN}{100} = 8{,}000 \times \frac{8}{100} \times \frac{6}{12} = ₹\ 320$$

(3) Advance given to workers (by firm) ₹ 1,000 is an asset for firm, so, it is shown on Assets side.

(4) Interest due but not paid is a liability for firm, so, it is shown on Liabilities side.

***Q. 10. Kshipra and Manisha are partners sharing Profit and Losses in their Capital ratio. You are required to prepare Trading Account and Profit and Loss Account for the year ended 31st March, 2019 and Balance Sheet as on that date.**

Trial Balance as on 31st March, 2019

Debit Balances	Amount (₹)	Credit Balances	Amount (₹)
Sundry Debtors	28,000	Sales	1,20,000
Purchases	55,000	Rent	1,800
Furniture	38,500	Sundry Creditors	38,500
Plant & Machinery	60,000	Puchase Return	1,000
Wages	800	Discount	500
Salaries	3,500	Bills Payable	9,000
Discount	800	Capital A/c :	
Bills Receivable	14,400	Kshipra	90,000
Carriage Outward	1,000	Manisha	30,000
Postage	500	Current A/c :	
Sales Return	500	Kshipra	5,000
Cash in Hand	4,000	Manisha	3,000
Cash at Bank	47,000		
Insurance	2,000		
Opening Stock	17,800		
Trade Expenses	1,500		
Warehouse Rent	2,500		
Advertisement	1,000		
Building	20,000		
	2,98,800		2,98,800

Adjustments :

(1) Stock on 31st March, 2019 was at ₹ 37,000.
(2) Sales includes, sale of machinery of ₹ 2,000, which is sold on 1st April, 2018.
(3) Depreciation on fixed assets @ 5%
(4) Each partners is entitled to get commission at 1 % of Gross profit and interest on Capital 5 % p.a.
(5) Outstanding Expenses wages ₹ 200 & Salaries ₹ 500.
(6) Create provision for Doubtful debts @ 3 % on Sundry debtors.

Solution : **In the books of Kshipra and Manisha**

Dr. **Trading and Profit and Loss Account for the year ended on 31st March, 2019** **Cr.**

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Opening Stock		17,800	By Sales	1,20,000	
To Purchase	55,000		Less : Machinery Sold		
Less : Purchase Return	1,000	54,000	Wrongly Recorded as Sales	2,000	
To Wages	800		Less : Sales Return	500	1,17,500
Add : O/s Wages	200	1,000	By Closing Stock		37,000
To Gross Profit c/d		81,700			
		1,54,500			1,54,500
To Salaries	3,500		By Gross Profit b/d		81,700
Add : O/s Salaries	500	4,000	By Rent		1,800
To Discount		800	By Discount		500
To Carriage Outward		1,000			
To Postage		500			
To Insurance		2,000			
To Trade Expenses		1,500			
To Warehouse Rent		2,500			
To Advertisement		1,000			
To Provision for Doubtful Debts (New)		840			
To Depreciation					
Furniture	1,925				
Plant & Machinery	2,900				
Building	1,000	5,825			
To Interest on Capital					
Kshipra	4,500				
Manisha	1,500	6,000			
To Commission					
Kshipra	817				
Manisha	817	1,634			
To Net Profit (Transferred to Capital A/c)					
Kshipra	42,301				
Manisha	14,100	56,401			
		84,000			84,000

Dr. **Partners' Current Accounts** **Cr.**

Particulars	Kshipra (₹)	Manisha (₹)	Particulars	Kshipra (₹)	Manisha (₹)
To Balance c/d	52,618	19,417	By Balance b/d	5,000	3,000
			By Profit and Loss A/c (Commission)	817	817
			By Profit and Loss A/c (Interest on Capital)	4,500	1,500
			By Profit and Loss A/c (Share in Profit)	42,301	14,100
	52,618	19,417		52,618	19,417
			By Balance b/d	52,618	19,417

Balance Sheet as on 31st March, 2019

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital Accounts :			Furniture	38,500	
Kshipra	90,000		Less : Depreciation	1,925	36,575
Manisha	30,000	1,20,000	Plant & Machinery	60,000	
Current A/cs :			Less : Sold on 1/4/18	2,000	
Kshipra	52,618			58,000	
Manisha	19,417	72,035	Less : Depreciation	2,900	55,100
Sundry Creditors		38,500	Building	20,000	
Bills Payable		9,000	Less : Depreciation	1,000	19,000
Outstanding expenses			Closing Stock		37,000
Wages	200		Sundry Debtors	28,000	
Salaries	500	700	Less : Provision for Doubtful Debts	840	27,160
			Bills Receivable		14,400
			Cash in Hand		4,000
			Cash at Bank		47,000
		2,40,235			2,40,235

Working Notes :

(1) Depreciation on fixed assets means depreciation on Furniture, Plant & Machinery and Building.

(2) Sales includes sale of Machinery of ₹ 2,000 is substracted from sales and from Plant & Machinery. On balance amount of Plant & Machinery ₹ 58,000, calculate 5 % depreciation i.e. 60,000 – 2,000 = ₹ 58,000 × 5% = ₹ 2,900

(3) Here on gross profit calculate 1 % commission for partners and record it to Profit and Loss A/c and in Current A/cs. Commission payable to each partner $= \frac{1}{100} \times$ Gross profit $= \frac{1}{100} \times 81{,}700 =$ ₹ 817.

PROBLEMS FOR PRACTICE

Q. 1. From the following Trial Balance and Adjustment of Kamal and Vimal, you are required to prepare Trading and Profit and Loss Account for the year ended on 31st March, 2019 and Balance Sheet as on that date :

Trial Balance as on 31st March, 2019

Debit Balances	Amount (₹)	Credit Balances	Amount (₹)
Stock (1 – 4 – 2018)	17,500	Sales	1,65,000
Salaries and Wages	2,100	Commission	2,000
Cash	5,000	Creditors	10,000
Purchases	1,12,600	Bank Overdraft	5,000
General Expenses	6,800	Interest on Fixed Deposits	4,000
Carriage Inward	6,000	Capital A/cs :	
Bills Receivable	3,000	Kamal	30,000
Conveyance Expenses	1,000	Vimal	20,000
Bad Debts	1,500		
Import duty	4,000		
Commission	2,000		
Fixed deposit	10,000		
Debtors	20,000		
Tools and Equipment	3,000		
Furniture	6,000		
Patents	10,500		
Building	25,000		
	2,36,000		2,36,000

Adjustments :

(1) Partners share Profits and Losses in the ratio of their capitals.

(2) Closing Stock is valued at Cost Price ₹ 20,000 and at Market Price ₹ 22,500.

(3) Kamal has withdrawn goods worth ₹ 600 for his own use, but no entry is made in the books.

(4) Uninsured goods worth ₹ 6,000 were lost by fire.

(5) ₹ 225 are to be written off as bad debts.

(6) Unpaid Expenses : Salaries and Wages ₹ 400, Rent ₹ 600.

(7) Depreciate Building @ $7\frac{1}{2}$ % p.a.

[**Ans.** (1) Gross Profit = ₹ 51,500. (2) Net Divisible Profit = ₹ 35,000, Division of Net Divisible Profit : Kamal = ₹ 21,000 and Vimal = ₹ 14,000. (3) Balance in Capital A/cs : Kamal = ₹ 50,400 and Vimal = ₹ 34,000. (4) Balance Sheet Total = ₹ 1,00,400.]

Hints :

(1) Profit sharing ratio = Capital ratio = 30,000 : 20,000 = 3 : 2.

(2) Closing stock = ₹ 20,000 (Lower value)

(3) For goods withdrawn by Kamal :
1st effect : Trading A/c – Cr.
2nd effect : Debited to Kamal's Capital A/c

(4) For goods lost by fire :
1st effect : Trading A/c – Cr.
2nd effect : Debited to P & L A/c – Loss due to fire

(5) Depreciation on Building

$$= 7\frac{1}{2}\% \text{ on } 25{,}000$$

$$= \frac{15}{2} \times \frac{1}{100} \times 25{,}000 = \frac{15}{2} \times 250$$

$$= 15 \times 125 = 1{,}875$$

Q. 2. Asha and Yesha are partners sharing Profits and Losses equally. The Trial Balance of their firm on 31st March, 2019 was as follows :

Trial Balance as on 31st March, 2019

Particulars	Debit Balances (₹)	Credit Balances (₹)
Stock (1 – 4 – 2018)	48,000	
Purchases and Sales	2,40,000	4,60,800
Return Inwards	18,000	
Carriage Inward	4,500	
Power and Fuel	24,000	
Productive Wages	21,000	
Trade Expenses	4,800	
Debtors and Creditors	48,000	36,000
Salaries	43,200	
Insurance	3,600	
Stationery	1,800	
Discount	4,800	7,200
Plant and Machinery	1,20,000	
Furniture & Fixtures	48,000	
Advertisement	9,000	
Buildings	2,40,000	
Drawings A/cs :		
Asha	4,800	
Yesha	6,000	
Capitals A/cs :		
Asha		1,50,000
Yesha		1,50,000
12 % Bank loan taken on 1 – 10 – 2018		90,000
Cash at Bank	4,500	
	8,94,000	8,94,000

Adjustments :

(1) Stock on 31–3–2019 was valued at Cost price ₹ 60,000 and Market price ₹ 72,000.

(2) Depreciate Plant and Machinery and Buildings at 20 % and 10 % respectively.

(3) Insurance is paid for one year ending on 30–06–2019.

(4) Goods withdrawn by Asha for her personal use of ₹ 6,000 during the year were not recorded in the books.

(5) Provide ₹ 6,000 as Bad debts and Reserve for Doubtful debts is to be maintained at 5% on Debtors.

Prepare : Trading Account, Profit and Loss Account for the year ending on 31st March, 2019 and Balance Sheet as on that date after considering the above adjustments.

[**Ans.** (1) Gross Profit = ₹ 1,71,300 (2) Net Profit = ₹ 50,700 (3) Total of Balance Sheet = ₹ 4,65,300.]

[**Hints :**

(1) Closing stock is to be recorded at ₹ 60,000 (which is lesser than ₹ 72,000)

(2) Insurance premium is paid for the year ending on 30/06/2019.
(i.e. from 31/03/2019 to 30/06/2019 → 3 months)

3 months prepaid insurance = $3{,}600 \times \frac{3}{12} = ₹\ 900$

(3) Debtors 48,000
Less : Bad Debts (New) 6,000
42,000
Less : Reserve for Doubtful Debts (5 %) 2,100
39,900

(4) Interest on 12 % Bank loan is calculated for the 6 months period.
(i.e. from 1 – 10 – 2018 to 31 – 03 – 2019)

$I = \frac{PRN}{100} = 90{,}000 \times \frac{12}{100} \times \frac{6}{12} = ₹\ 5{,}400.$

Interest due on Bank Loan is first to be debited to Profit and Loss A/c and then interest due is to be added to 12% Bank Loan on the Liabilities side of Balance Sheet.

(5) Goods withdrawn by Asha ₹ 6,000 is first to be credited to Trading A/c and then to be deducted from the capital of Asha.]

Q. 3. Rahul and Ketul are partners sharing Profits and Losses equally. Following is their Trial Balance as on 31st March, 2019 :

Trial Balance as on 31st March, 2019

Debit Balances	Amount (₹)	Credit Balances	Amount (₹)
Buildings	55,000	Rahul's Capital	1,16,000
Machinery	40,000	Ketul's Capital	62,000
Salary and Wages	21,000	Return Outwards	5,500
Cash at Bank	40,000	Sales	2,80,000
Cash in Hand	1,100	Creditors	20,000
Dead Stock	20,000	Reserve Fund	35,000
General Expenses	1,000		
Warehouse Rent	5,000		
Purchases	2,20,000		
Sales Return	2,000		
Bad Debts	1,000		
Debtors	32,800		
Rent	1,100		
Printing and Stationery	1,500		
Travelling Expenses	5,500		

Opening Stock	30,000		
Insurance	1,500		
Interest	8,000		
Advertisement (For 3 years)	12,000		
Furniture	20,000		
	5,18,500		5,18,500

Adjustments :

(1) The Closing stock of 31st March, 2019 was valued at cost ₹ 41,000 while its Market price is ₹ 45,000.

(2) Goods worth ₹ 5,000 were destroyed by fire and Insurance company agreed to pay ₹ 4,000 in full settlement of the claim.

(3) Unpaid expenses : Rent ₹ 100 and Salary ₹ 500.

(4) Provide depreciation at 10 % on Machinery and at 5 % on Furniture.

(5) Goods worth ₹ 8,000 were sold on 27th March, 2019 but no entry was made in the books.

You are required to prepare Trading and Profit and Loss A/c for the year ended 31st March, 2019 and the Balance Sheet as on that date after considering the above adjustments.

[**Ans.** (1) Gross Profit = ₹ 82,500 (2) Net Divisible Profit = ₹ 31,300, Net Divisible Profit of ₹ 15,650 transferred to each Partner's Capital A/c (3) Capital Balances : Rahul = ₹ 1,31,650 and Ketul = ₹ 77,650 (4) Balance Sheet Total = ₹ 2,64,900.]

[**Hints :**

(1) Advt. exp. is given for 3 years : 1 year amt. $= \frac{12,000}{3} =$ ₹ 4,000.

Write ₹ 4,000 in Dr. side of Profit and Loss A/c and ₹ 8,000 in Asset side of Balance Sheet.

(2) Unrecorded sales – Add it to Sales and Add it to Debtors.]

Q. 4. Following is the Trial Balance of Shalin and Saurya as on 31st March, 2019 who share Profits and Losses in the ratio of 3 : 2 :

Trial Balance as on 31st March, 2019

Debit Balances	Amount (₹)	Credit Balances	Amount (₹)
Goodwill	16,000	15 % Bank Loan	48,000
Plant and Machinery	64,000	(Taken on 1–10–2018)	
Patents	8,000	Capital A/cs :	
Carriage	6,880	Shalin	64,000
Postage and Telegram	1,120	Saurya	48,000
Power and Fuel	4,800	Creditors	32,800
Debtors	19,200	Commission	640
Trade Expenses	480	Sales	1,20,320
Advertisement	2,400		
Furniture	11,360		
Wages	22,400		

Purchases	47,200		
Stock (1st April 2018)	16,640		
Printing and Stationery	4,160		
Interest on Bank Loan	2,400		
Land and Building	85,280		
Discount	640		
Cash in Hand	800		
	3,13,760		3,13,760

Adjustments :

(1) Closing stock on 31st March, 2019 was valued at ₹ 19,200.

(2) Depreciate Plant and Machinery at 10% and Furniture by ₹ 640.

(3) Outstanding wages ₹ 1,600.

(4) Goods taken by Saurya for his personal use ₹ 800. No entry has been passed in the books.

(5) Goods of ₹ 1,600 distributed as free samples for which no record has been made.

You are required to prepare Trading and Profit and Loss A/c for the year ended 31st March, 2019 and Balance Sheet as on that date after taking into consideration the above adjustments.

[**Ans.** (1) Gross Profit = ₹ 42,400 (2) Net Divisible Profit = ₹ 22,000 (3) Division of Profit : Shalin = ₹ 13,200 and Saurya = ₹ 8,800 (4) Capital Balance : Shalin = ₹ 77,200 and Saurya = ₹ 56,000 (5) Balance Sheet Total = ₹ 2,16,800.]

[**Hints :**

(1) Interest on Bank loan is to be calculated for 6 months. (i.e. from 1 – 10 – 2018 to 31 – 03 – 2019) :

$$I = \frac{PRN}{100} = 48,000 \times \frac{15}{100} \times \frac{6}{12} = ₹\ 3,600.$$

Interest on Bank loan (outstanding) = Interest on Bank loan due – Interest on Bank loan paid = 3,600 – 2,400 = ₹ 1,200. Interest on Bank loan (outstanding) is to be added to Interest paid on Bank loan at Debit side of Profit and Loss A/c and then same is to be added to Bank loan at Liabilities side of Balance Sheet.

(2) Goods taken by Saurya of ₹ 800 are to be deducted from his capital and then to be credited to Trading A/c.

(3) Goods of ₹ 1,600 as free sample is to be first credited to Trading A/c and then to be debited to Profit and Loss A/c.]

Q. 5. From the following Trial Balance of Dalvi and Patel, you are required to prepare Trading and Profit and Loss A/c for the year ended 31st March, 2019 and Balance Sheet as on that date after taking into consideration the following adjustments :

Trial Balance as on 31st March, 2019

Debit Balances	Amount (₹)	Credit Balances	Amount (₹)
Opening Stock	39,000	Capital Accounts :	
Purchases	65,000	Dalvi	65,000
Return Inwards	2,600	Patel	97,500

Debtors	52,000	General Reserve	15,600
Insurance (for 3 years)	7,800	Creditors	39,000
(w.e.f. 1 – 10 – 2018)		Sales	91,000
Carriage Inwards	650	Purchase return	3,250
Wages	1,950	Wages Payable	2,080
Salaries	3,250	Commission	520
Investments	6,500	Discount	650
Sundry Expenses	650		
Drawings A/cs :			
Dalvi	1,950		
Patel	3,250		
Machinery	39,000		
(Purchased on 01 – 01 – 2019)			
Buildings	68,900		
Repairs to Building	9,100		
Carriage Outwards	1,300		
Rent	910		
Advertisement	2,990		
Cash in Hand	7,800		
	3,14,600		3,14,600

Adjustments :

(1) Dalvi and Patel share Profits and Losses in 2 : 3 ratio.

(2) Closing stock was valued at cost ₹ 33,150.

(3) Outstanding expenses : Rent ₹ 390, Advertisement ₹ 910.

(4) Depreciate Machinery and Building at 10 % p.a.

(5) Goods worth ₹ 13,000 were destroyed by fire and Insurance Co. admitted a claim of ₹ 8,450 only.

(6) Goods of ₹ 1,300 were taken over by Dalvi for his personal use, were not recorded in the Books of Accounts.

[**Ans.** (1) Gross Profit = ₹ 32,500 (2) Net Divisible Profit = ₹ 455; Division of Net Divisible Profit : Dalvi = ₹ 182 and Patel = ₹ 273 (3) Balance in Partners' Capital A/cs : Dalvi = ₹ 61,932 and Patel = ₹ 94,523 (4) Balance Sheet Total = ₹ 2,14,435.]

[**Hints :**

(1) Prepaid insurance is to be calculated as follows :

Insurance premium is paid for 3 years at a stretch. Insurance premium is written off per annum $= \frac{7{,}800}{3} =$ ₹ 2,600. In the current accounting year i.e. in the year 2018 – 19, it is paid w.e.f. 1 – 10 – 2018. ∴ Insurance premium written off to Profit and Loss A/c $= \frac{1}{2} \times 2{,}600 =$ ₹ 1,300 and remaining of the insurance premium of ₹ 6,500, is considered as prepaid insurance.

(2) Since Machinery purchased on 1 – 01 – 2019, depreciation is to be calculated for 3 months as follows : Depreciation $= 39{,}000 \times \frac{3}{12} \times \frac{10}{100} =$ ₹ 975; Depreciation on Building = 10 % of ₹ 68,900 for complete one year = ₹ 6,890.

(3) Net loss by fire = Value of goods lost − Insurance claim receivable = 13,000 − 8,450 = ₹ 4,550.

(4) An amount of goods of ₹ 1,300 taken over by Dalvi is to be either deducted from purchases or to be shown separately on Credit side of Trading A/c and then the same value is to be deducted from capital of Dalvi in the Balance Sheet.]

Q. 6. From the following Trial Balance of Sanjay and Vijay, you are required to prepare Trading and Profit and Loss A/c for the year ended on 31st March, 2019 and Balance Sheet as on that date after taking into consideration the additional information given below :

Trial Balance as on 31st March, 2019

Particulars	Debit Balances (₹)	Credit Balances (₹)
Sundry Debtors and Creditors	45,800	72,700
Bills Receivable and Bills Payable	28,200	40,000
Purchases and Sales	98,500	1,10,000
Return Inwards	2,000	
Salaries and Wages	26,000	
Carriage outwards	1,800	
Insurance Premium	2,200	
Postage and Telegram	1,750	
Plant and Machinery	70,000	
Advertisement	3,000	
Import Duty	2,100	
Bad Debts	1,000	
Printing and Stationery	2,400	
Cash in Hand	1,850	
Leasehold Premises	80,000	
Opening Stock	12,000	
Dividend Received		1,500
Outstanding Audit fees		4,400
10 % Bank Loan (Taken on 1 – 10 – 18)		60,000
Capital Accounts : Sanjay		45,000
Vijay		45,000
	3,78,600	3,78,600

Adjustments :

(1) Closing stock was valued at ₹ 25,000.

(2) Unused Postage stamps of ₹ 250.

(3) Uninsured goods worth ₹ 8,000 were stolen from the godown.

(4) Leasehold premises is to be run for 10 years w.e.f. 1 – 10 – 2018.

(5) Depreciate Plant and Machinery at 10 % p.a.

(6) Our customer Mr Ajay became insolvent and could not pay his debts of ₹ 2,000.

[**Ans.** (1) Gross Profit = ₹ 28,400 (2) Net Adjustable Loss = ₹ 32,000, Division of Net Adjustable Loss : Sanjay = ₹ 16,000 and Vijay = ₹ 16,000 (3) Balance in Capital A/cs : Sanjay = ₹ 29,000 and Sham = ₹ 29,000 (4) Balance Sheet Total = ₹ 2,38,100.]

[**Hints :**

(1) The values of postage stamps of ₹ 250 deducted from Postage and Telegram on the Debit side of Profit and Loss A/c and then the values of unused postage stamps is shown on the Asset side of Balance Sheet.

(2) Depreciation on Leasehold premises is calculated as follows :

$$\text{Depreciation} = \frac{\text{(Value of premises)}}{\text{Period of lease}} \times \text{(Proportionate period of current year)}$$

$$= \frac{80{,}000}{10} \times \frac{6}{12} = ₹\ 4{,}000.$$

(3) Outstanding Audit fees given in the T.B. record it on Liability side of Balance Sheet.

(4) Interest on Bank Loan $= 60{,}000 \times \frac{6}{12} \times \frac{10}{100}$ (6 months i.e. from 1/10/18 to 31/3/19) = ₹ 3,000.]

Q. 7. From the following Trial Balance of Mahesh and Dinesh and given adjustments, prepare a Trading Account, Profit and Loss Account for the year ended 31st March, 2019 and Balance Sheet as on that date :

Trial Balance as on 31st March, 2019

Debit Balances	Amount (₹)	Credit Balances	Amount (₹)
Opening Stock	22,500	Capital A/cs :	
Purchases	1,12,500	Mahesh	12,500
Plant and Machinery	37,500	Dinesh	10,000
Carriage	8,400	Sales	2,25,000
Factory Rent	750	Discount Received	375
Insurance	525	Sundry Creditors	7,500
Sundry Debtors	30,000	Bad Debts Reserve	100
Office Rent	1,500	Bills Payable	1,000
Printing and Stationery	300		
Advertisement	7,500		
Bills Receivable	1,500		
Drawings A/cs :			
Mahesh	1,750		
Dinesh	1,250		
Salaries	9,000		
Wages	10,000		
Furniture	3,750		
Royalty	500		
Cash at Bank	7,250		
	2,56,475		2,56,475

Adjustments :

(1) Closing stock was valued at Cost price ₹ 17,500 and Market price ₹ 20,000.

(2) Plant and Machinery and Furniture are to be depreciated at 6 % and 10 % p.a. respectively.

(3) Maintain reserve for Doubtful debts @ $2\frac{1}{2}$ % on Sundry debtors.

(4) Outstanding expenses : (i) Factory rent ₹ 150 (ii) Office rent ₹ 300

(5) Interest on capital is to be allowed at 6 % p.a.

(6) Prepaid insurance was ₹ 50.

[**Ans.** (1) Gross Profit = ₹ 87,700. (2) Net Divisible Profit = ₹ 64,375 Division of Net Divisible Profit : Mahesh : ₹ 32,187 and Dinesh = ₹ 32,188. (3) Capital balance : Mahesh = ₹ 43,687 and Dinesh = ₹ 41,538. (4) Balance Sheet Total = ₹ 94,175.]

[**Hints :** R.D.D. = $2\frac{1}{2}$ % on Sundry Debtors = $\frac{5}{2}$ % × 60,000 = $\frac{5}{2} \times \frac{1}{100} \times 60{,}000$ = ₹ 1,500]

Q. 8. The following was the Trial Balance of Parag and Satya partners sharing Profit and Losses in the proportion of 2 : 3. Interest on capital was to be allowed at 6 % p.a. but interest on drawing was to be ignored :

Trial Balance as on 31st March, 2019

Debit Balances	Amount (₹)	Credit Balances	Amount (₹)
Opening Stock	20,000	Return Outwards	2,500
Sundry Debtors	28,200	Sundry Creditors	31,400
Purchases	40,000	Sales	70,000
Wages	8,500	R.D.D.	400
Salaries	2,700	Capital A/cs :	
Office Expenses	4,046	Parag	70,000
Discount	1,300	Satya	20,000
Plant and Machinery	30,000	Loan at 9 % (Taken on 1–10–18)	4,000
Return Inwards	3,500		
Land and Building	40,000		
Cash at Bank	14,654		
Current A/cs :			
Parag	4,200		
Satya	1,200		
	1,98,300		1,98,300

Adjustments :

(1) Closing stock was valued at ₹ 41,000.

(2) Unpaid wages were ₹ 1,500 and Outstanding salaries were ₹ 1,314.

(3) Write off ₹ 200 as bad debts and provide 5 % reserve for doubtful debts on sundry debtors and 2 % reserve for discount on Debtors.

(4) Provide depreciation at 10 % on plant and machinery.

(5) Goods of ₹ 8,000 were stolen from godown. These goods were not insured.

Prepare : Trading and Profit and Loss A/c for the year ended 31st March, 2019 and a Balance Sheet as on that date.

[**Ans.** (1) Gross Profit = ₹ 48,000; Net Profit = ₹ 20,328; Total of Balance Sheet = ₹ 1,48,722.]

[**Hints :** (1) R.D.D. = 5% on (Net debtors) = $\frac{5}{100}$ × (28,200 – New Bad debts)

$= \frac{5}{100} \times (18{,}100 - 200) = \frac{5}{100} \times 28{,}000$ = ₹ 1,400

(2) Reserve for Discount on Debtors = 2% on (Net debtors – New Reserve)

$= \frac{2}{100} \times (18{,}000 - 1{,}400) = \frac{2}{100} \times \frac{26600}{1}$ = ₹ 532]

Q. 9. From the following Trial Balance and Adjustments relating to the partnership firm of Harsin and Soni, prepare a Trading and Profit and Loss A/c and a Balance Sheet :

Trial Balance as on 31st March, 2019

Debit Balances	Amount (₹)	Credit Balances	Amount (₹)
Opening Stock	12,500	Bank Overdraft	35,000
Purchases	60,000	Creditors	22,000
Wages	7,000	Reserve for Doubtful Debts	700
Carriage	2,500	Sales	1,20,000
Salaries and Wages	4,900	Capital A/cs :	
Printing	2,700	Harsin	32,000
Advertising	1,000	Soni	16,000
Bad Debts	2,900	Current A/cs :	
Discounts	2,500	Harsin	3,000
Debtors	16,000	Soni	2,000
Bills Receivable	13,200	Rent (for 10 months)	10,000
Buildings	40,000	Bills Payable	2,500
Machinery	42,000		
Cash in Hand	5,200		
Motor Car	20,000		
Drawings A/cs :			
Harsin	4,800		
Soni	6,000		
	2,43,200		2,43,200

Adjustments :

(1) Depreciate Buildings by 5% and Machinery by 10%.

(2) The outstanding expenses were : Printing ₹ 200 and Wages ₹ 1,200.

(3) Goods of ₹ 1,000 purchased at the end of the accounting year were included in the closing stock but were not recorded in the Purchases Book.

(4) The market price of the closing stock was ₹ 24,600 which is 20% above cost.

(5) The reserve for doubtful debts is to be maintained at ₹ 800.

(6) Bills receivable include a dishonoured bills for ₹ 2,200.

(7) ₹ 2,000 spent on repairs on machinery wrongly included in Machinery Account.

[**Ans.** Gross Profit = ₹ 56,300; Net Profit = ₹ 46,000; Total of Balance Sheet = ₹ 1,50,100.]

[**Hints :**

(1) Cost of closing stock $= \frac{\text{Market Price} \times 100}{(100+20)} = \frac{24500 \times 100}{120} =$ ₹ 20,500

Closing stock is to be recorded at ₹ 20,500 which is lower than its market price of ₹ 24,600.

(2) Bills Receivable ₹ 2,200 dishonoured should be added to debtors and deducted from the value of Bills Receivable.

(3) Unrecorded purchases ₹ 1,000 should be added to purchases and then add to creditors.]

Q. 10. Given below is the Trial Balance of Radha and Krishna on 31st March, 2019. Partners share Profits and Losses in the ratio of 3 : 2 respectively. From the following Trial Balance and additional information, prepare a Trading and Profit and Loss A/c for the year ended 31st March, 2019 and a Balance Sheet as on that date :

Trial Balance as on 31st March, 2019

Debit Balances	Amount (₹)	Credit Balances	Amount (₹)
Partner's Current A/c : Radha	16,000	Partners' Capital A/cs :	
Partners' Drawings : Radha	15,000	Radha	80,000
Krishna	10,000	Krishna	50,000
Purchases	1,20,000	Partner's Current A/c :	
Returns	2,500	Krishna	10,000
Debtors	65,000	Sales	3,65,000
Furniture	50,000	Returns	3,500
Premises	1,60,000	Creditors	10,000
Bad debts	7,500	R.D.D.	2,000
Discount	5,000	Provident Fund	65,000
Provident Fund Contribution	15,000	Interest on P. F. Investment	6,000
Provident Fund Investment	60,000	Outstanding Salaries and Wages	6,500
Salaries and Wages	15,003	General Reserve	45,003
Opening Stock	80,000		
Cash in Hand	18,000		
Royalties	4,000		
	6,43,003		6,43,003

Adjustments :

(1) The closing stock valued at market price ₹ 90,000 which is 20% above cost.

(2) Write off bad debts ₹ 1,500 and make a Provision for doubtful debts a 5% on Debtors.

(3) Provide 2% Reserve for discount on debtors and creditors.

(4) Depreciate Furniture @ 15% and Premises @ 20%.

(5) Interest on capital allowed @ 18% p.a. and interest on drawings charged @ 15% p.a.

(6) Radha is entitled to receive rent for her premises at ₹ 300 p.m. where business is carried out and Krishna is to be given 5% commission on 'Gross Profit'.

[**Ans.** (1) Gross Profit = ₹ 2,37,000 (2) Net Divisible Profit = ₹ 1,14,340, Division of Profit : Radha = ₹ 68,604 and Krishna = ₹ 45,736 (3) Credit balance in Partner's Current A/cs : Radha = ₹ 54,479 and Krishna = ₹ 65,836 (4) Balance Sheet Total = ₹ 3,82,618.]

[**Hint :** Cost of closing stock = $\frac{90,000}{120} \times \frac{100}{1}$ = ₹ 75,000; Commission given to Krishna = 5% of ₹ 2,37,000 = ₹ 11,850.]

Q. 11. Heet and Het are partners sharing Profits and Losses in the ratio of 3 : 2 respectively. From the following Trial Balance and Adjustments, you are required to prepare a Trading and Profit and Loss Account for the year ended 31st March, 2019 and Balance Sheet as on that date :

Trial Balance as on 31st March, 2019

Debit Balances	Amount (₹)	Credit Balances	Amount (₹)
Opening Stock	83,000	Capital Accounts : Heet	1,62,000
Salary	13,000	Het	1,08,000
Purchases	1,97,000	Current Accounts : Heet	16,200
Wages	7,500	Het	10,800
Audit fees	8,500	Sundry Creditors	99,000
Motive power	15,000	Sales	4,20,000
Investments	56,000	Bank Overdraft	56,400
Bad debts	6,400		
Loose Tools	17,000		
Carriage	7,000		
Interest	4,000		
Motor Van	88,000		
Buildings	1,50,000		
Debtors	96,000		
Cash at Bank	44,000		
Machinery	60,000		
Drawings Accounts : Heet	12,000		
Het	8,000		
	8,72,400		8,72,400

Adjustments :

(1) Stock on hand on 31st March, 2019, was valued at ₹ 76,000.

(2) Interest on partner's capital @ 5 % p.a. is allowed while interest on drawings is charged @ 3 % p.a.

(3) Motive power includes ₹ 7,000 paid a deposit for power meter.

(4) Depreciate Machinery @ 12.5 %, Motor Van @ 7.5 % and Loose Tools @ 10 %.

(5) Outstanding expenses were : Salary ₹ 3,000, Audit Fees ₹ 3,500.

(6) Wages include ₹ 2,500 as advance to workers.

[**Ans.** (1) Gross Profit = ₹ 1,96,000 (2) Net Divisible Profit = ₹ 1,28,600; Division of Net Divisible Profit : Heet = ₹ 77,160 and Het = ₹ 51,440 (3) Current Account balances at the end : (i) Heet = ₹ 89,280 (Cr. balance) and (ii) Het = ₹ 59,520 (Cr. balance) (4) Balance Sheet Total = ₹ 5,80,700.]

[**Hints :**

(1) Interest on drawings @3% is to be calculated for average period of 6 months :

(a) Hit $= 12{,}000 \times \frac{6}{12} \times \frac{3}{100} \times$ ₹ 180

Het $= 8{,}000 \times \frac{6}{12} \times \frac{3}{100} \times$ ₹ 120

Effects : Debit the current A/cs and credit the Profit and Loss A/c.

(2) Depreciation :

(a) Machinery = 60,000 @ 12.5% for 1 year = 60,000 × $\frac{125}{1000}$ = ₹ 7,500

(b) Motor van = 88,000 @ 7.5% for 1 year = 88,000 × $\frac{75}{1000}$ = ₹ 6,600

(c) Loose tools = 10% on ₹ 17,000 = ₹ 1,700.

(3) Deposit for motive power meter ₹ 7,000 is to be deducted from motive power payment on the debit side of Trading A/c and then the same is to be shown on the Assets side of Balance Sheet.

(4) Advance given to workers ₹ 2,500 is to be deducted from wages on the debit side of Trading A/c and then same is to be shown on the Assets side of Balance Sheet.]

Q. 12. Shikha and Prem are partners sharing Profits and Losses equally. From the following Trial Balance of their firm and Adjustments thereto prepare a Trading and Profit and Loss A/c for the year ended 31st March, 2019 and a Balance Sheet as on that date :

Trial Balance as on 31st March, 2019

Debit Balances	Amount (₹)	Credit Balances	Amount (₹)
Opening Stock	40,000	Capital A/cs :	
Purchases	2,60,400	Shikha	30,000
Sales Returns	1,000	Prem	30,000
Debtors	40,000	Current A/cs :	
Wages	12,000	Shikha	4,000
Royalties	2,000	Prem	4,000
Furniture	10,000	Sales	3,41,000
Machinery	48,000	Purchases Returns	6,400
Advertising (for 4 years)	8,000	Commission	600
Salaries	46,000	Provident Fund	4,000
Provident Fund Contribution	1,000	Interest on Provident Fund	
Provident Fund Investments	4,000	Investments	400
Insurance	1,000	Reserve for Doubtful Debts	1,000
Cash	6,000	Creditors	70,000
Depreciation on Machinery	12,000		
	4,91,400		4,91,400

Adjustments :

(1) The cost price of the closing stock was ₹ 60,000 while its market price was ₹ 50,000.

(2) Goods of ₹ 6,000 were sold on 30th March 2019, but no entry thereof has been made in the sales book. During the year, Goods worth ₹ 2,000 were withdrawn by Shikha for her self use.

(3) Depreciate furniture by 15 % p.a.

(4) Write off ₹ 1,200 as Bad debts and maintain the Reserve for doubtful debts @ 5 % on Sundry Debtors. Provide Discount on debtors @ 3 % and Discount on creditors @ 2 %.

(5) Prepaid insurance ₹ 400 and salaries include ₹ 3,000 paid as an advance against salaries.

(6) Provide interest on capital @ 18 % p.a. and interest on drawings is to be charged @ 12 % p.a.

(7) Shikha is allowed 2 % commission on gross profit.

[**Ans.** (1) Gross Profit = ₹ 90,000 (2) Net Divisible Profit = ₹ 15,704; Division of Net Divisible Profit : Shikha = ₹ 7,852 and Prem = ₹ 7,852 (3) Credit balance in Partner's Current A/cs : Shikha = ₹ 16,932 and Prem = ₹ 17,252 (4) Balance Sheet Total = ₹ 1,67,184.]

[**Hints :**

(1) Advertisement bill of ₹ 8,000 has been paid for 4 years with effect from the current year.

∴ Advertisement expense written off to current year is $\frac{1}{4}$ of ₹ 8,000 i.e. ₹ 2,000 and remaining ₹ 6,000 is to be considered as prepaid advertisement is ₹ 6,000.

(2) Interest on Provident Fund Investment is added to Provident Fund at Liabilities side of Balance Sheet because it is an income of P.F. holders and not of the partnership firm.

(3) The amount of Reserve for Discount on Debtors is calculated on the amount of Net Debtors (₹ 42,560) arrived after deducting further Bad Debts and New R.D.D.

(4) Interest on drawings is to be calculated for half year as date of drawings is not given.]

Q. 13. From the following Trial Balance of Keyur and Kaushal, you are required to prepare Trading and Profit and Loss A/c for the year ended 31st March, 2019 and Balance Sheet as on that date :

Trial Balance as on 31st March, 2019

Debit Balances	Amount (₹)	Credit Balances	Amount (₹)
Drawings A/cs :		Capital A/cs :	
Keyur	2,000	Keyur	60,000
Kaushal	1,000	Kaushal	40,000
Stock on 1 – 04 – 2018	44,000	Sales	3,02,000
Bills Receivable	1,800	Returns	2,000
Purchases	1,90,000	Creditors	64,200
Returns	6,000	Discount Received	200
Salaries	10,000		
Carriage Outwards	1,400		
Wages	24,000		
Insurance	1,600		
Postage	800		
Debtors	70,400		
Furniture	24,000		
Cash in Hand	9,800		
Machinery	80,000		
Rent and Taxes	1,200		
Printing and Stationery	400		
	4,68,400		4,68,400

Adjustments :

(1) Closing stock as on 31st March, 2019 was valued at ₹ 56,000.

(2) Outstanding expenses were : Wages ₹ 2,000 and Salaries ₹ 930.

(3) Goods distributed as free samples were ₹ 2,000.

(4) Interest on partners' capital at 7 % p.a. was to be provided.

(5) Prepaid insurance was ₹ 100.

(6) Depreciate Furniture at 10 % and Machinery at 5 %.

(7) Create Reserve for bad and doubtful debts at 5% on debtors.

[**Ans.** (1) Gross Profit = ₹ 96,000 (2) Net Divisible Profit = ₹ 61,050. It is distributed equally between Keyur and Kaushal (3) Capital A/c balance : Keyur = ₹ 92,725 and Kaushal = ₹ 72,325 (4) Balance Sheet Total = ₹ 2,32,180.]

[**Hints :**

(1) Outstanding expenses are to be added to related expenses and then show them on Liabilities side of Balance Sheet.

(2) Goods distributed as free samples ₹ 2,000 are to be debited to Profit and Loss A/c and credited to Trading A/c.

(3) Interest on capital : Keyur = ₹ 4,200 and Kaushal = ₹ 2,800 is to be debited to P and L A/c and to be credited to respective Partners' Capital A/cs.

(4) Deduct Prepaid insurance from insurance on the Debit side of P and L A/c and then show it on the Assets side of the Balance Sheet.]

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2

ACCOUNTS OF 'NOT FOR PROFIT' CONCERNS

SYLLABUS

2.1 Introduction
2.2 Meaning of 'Not for Profit' concern
2.3 Features of 'Not for Profit' concern
2.4 Difference between Profit Organisation and Not for Profit Organisation
2.5 Need for maintaining books of Accounts and Preparing Final Accounts
2.6 Meaning of Receipts and Payments Account
2.7 Features of Receipts and Payments Account
2.8 Types of Receipts :
    2.8.1 Capital Receipts
    2.8.2 Revenue Receipts
2.9 Types of Payments :
    2.9.1 Capital Expenditure
    2.9.2 Revenue Expenditure
    2.9.3 Deferred Revenue Expenditure
2.10 Specimen of Receipts and Payments Account
2.11 Meaning of Income and Expenditure Account
2.12 Features of Income and Expenditure Account
2.13 Specimen of Income and Expenditure Account
2.14 Distinction between Receipts and Payments Account and Income and Expenditure Account
2.15 Preparation of Income and Expenditure Account
2.16 Preparation of Balance Sheet
2.17 Specimen of Balance Sheet
2.18 Adjustments
2.19 Implied Adjustments
2.20 Accounting treatment to the important items

BRIEF OVERVIEW

2.1 Introduction :

In the society we come across with two types of organisations viz. (1) Trading organisation or Profit making organisation and (2) Non-trading organisation or Not for profit making organisation.

Aim of Trading organisation / concern is to earn maximum profit by undertaking process of manufacturing goods or purchase of goods and sells them at a profit or to earn income by rendering services to its customers. Trading concerns prepare Trading Account, Profit and Loss Account and Balance Sheet to ascertain the profit of the firm and financial position of the firm. Examples of trading organisations are : Sole proprietorship firm, Partnership firm, Public and Private companies, Co-operative organisations, etc. Other type of organisations are Non-trading organisations and the aim of these type of concerns is not to earn profit but to give services to its members or services to the society at large.

Non-trading organisation prepare Receipts and Payments Account to get summary of cash transactions, prepare Income-Expenditure Account to ascertain whether their incomes are sufficient enough to meet their expenditures and prepare Balance sheet to know financial position of organisation as on a particular date.

Not for Profit Organisation

- (1) Formed for promotion of art, culture, religion, sports, charity, health, education, etc.
- (2) Main objective is to provide services to its members or society without profit motive.
- (3) Collects income through subscriptions, donations, admission fees from members and grants, subsidies, concessions from Government.
- (4) Spends its income to promote its objectives.
- (5) Never pays dividend to its members.

2.2 Meaning of 'Not for Profit' Concern :

A concern or an organisation which is formed and established to serve its members and society or general public by undertaking various activities without any profit motive is called a 'Not for Profit' concern or organisation. Main objective of these concerns, is to provide social service and to promote art, culture, sports, education, etc. 'Not for Profit' concerns collects income through different sources such as subscription from its members, entrance fees / admission fees, donations, government grants or aid, subsidies, etc.

2.3 Features of 'Not for Profit' Concern :

The features of 'Not for Profit' concern are explained as follows :

(1) Objective : 'Not for Profit' concern undertakes various activities without any profit motive to promote art, culture, education, religion, sports, charity, health, etc. Its primary objective is to provide goods and services to its members.

(2) Dividend : 'Not for Profit' concern is not allowed to make the payment of any dividend to its members.

(3) Membership : Any person who is interested in the organisation can become its member by contributing towards entrance fees, life membership fees, subscriptions, etc.

(4) Democratic Management : The management of this organisation or concern is looked after by the elected representatives of the members. The elected representatives form themselves into a managing committee or governing body. They elect a Chairman and other office bearers such as secretary, treasurer, etc. The Chairman is the official head of the concern. Usually office bearers are working on an honorary basis.

(5) Accounts to be prepared : It prepares Income and Expenditure Account to record incomes and expenses of the concern and to find out surplus or deficit. Excess of income over expenditure is called surplus while excess of expenditure over income is called deficit.

(6) Capital fund : It is necessary for every such organisation to have its capital fund. The capital fund of the organisation includes entrance fees, surplus, legacies and donations specifically received, for creating capital fund, etc. The excess of assets over liabilities is also termed as 'Capital Fund'.

(7) Special funds : Any receipts, donations or grants received for creation of a certain funds, e.g. Prize fund, Building fund, etc. are credited to such specific funds.

2.4 Difference between Profit Organisation and 'Not for Profit' Organisation :

Profit Organisation	'Not for Profit' Organisation
(1) Meaning	
An organisation which is established with the objective of earning profit and serving society through undertaking production or distribution of goods or services is called 'Profit organisation'.	An organisation which is established to serve its members and society or general public by undertaking various activities without any profit motive, is called a 'Not for Profit' organisation.
(2) Primary Objective	
Primary objective is to earn profit.	Primary objective is to provide services.
(3) Trial Balance	
It prepares Trial Balance.	It prepares Receipts and Payments Account.
(4) Net Result	
It prepares Profit and Loss A/c to ascertain net result in the form of profit or loss.	It prepares Income and Expenditure A/c to find out net result in the form of deficit or surplus.
(5) Accounting Statements	
It prepares the following accounting statements : (1) Trading Account (2) Profit and Loss Account and (3) Balance Sheet.	It prepares the following statements : (1) Receipts and Payments Account (2) Income and Expenditure Account and (3) Balance Sheet.
(6) Owner's Fund / Capital Fund	
Capital balance and balances in Reserves and Surplus together constitute owner's fund/capital fund.	Capital fund includes accumulated amount of surplus, surplus shown by Income and Expenditure A/c, Subscriptions, Donations, etc.

2.5 Need for Maintaining Books of Accounts and Preparing Final Accounts :

'Not for Profit' concern never engages itself in any field of activity where the object of earning profit is present. As 'Not for Profit' concern deals with public money (i.e. subscriptions and donations received from its members and general public, grants received from government), it is answerable to society or public. It is required to maintain the various books of accounts for the following reasons :

(1) To have control over the cash transactions i.e. inflow and outflow of cash.

(2) To know the sources of funds and its application i.e. different heads of expenditures on which amount is spent.

(3) To comply with the provisions of laws applicable to such organisation, e.g. co-operative society registered under the Co-operative Society's Act, is required to follow the provisions to make budget, audit the accounts, maintain books of accounts, etc.

(4) To find out surplus or deficit of the concern during a particular period.

(5) To know the financial position and net worth of the concern on a particular day.

(6) To avoid illegal or wrong practices and misappropriation of funds and assets.

2.6 Meaning of Receipts and Payments Account :

An account which is prepared by a 'Not for Profit' concern to record summary of all types of cash receipts and cash payments inclusive of bank transactions is called Receipts and Payments Account. It discloses the various sources from which cash comes in and the various ways through which cash goes out. It is just similar to the cash book maintained by the trading concerns. Like Cash Account, it has two sides, viz. debit side and credit side. On the debit side, all the receipts of cash and on credit side, all disbursements or payments of cash are recorded. The opening balance of Cash and Bank balance are shown on the debit side of this book. Bank overdraft is shown on the credit side of this book. This book closes with cash balance and bank balance or overdraft at the end of the accounting year. All receipts and expenditures irrespective of their nature i.e. revenue or capital are recorded in this book. Receipts and payments related to previous year, current year or next year are also recorded in this book.

2.7 Features of Receipts and Payments Account :

The features of Receipts and Payments Account are explained as follows :

(1) Receipts and Payments Account is a Real Account.

(2) It is similar to Cash Book and gives a summary of cash transactions and bank transactions.

(3) The receipts and payments of all kinds i.e. revenue as well as capital are recorded in this account.

(4) The receipts and payments relating to past, current and future accounting years, if received and paid during the current year are recorded in this account.

(5) It records the amount actually received as well as paid during the current year. However, amount receivable as well as amount payable (outstanding) are not recorded in this account.

(6) It provides base for preparation of final accounts consisting of Income and Expenditure Account and Balance Sheet of 'Not for Profit' concern.

(7) Opening balances of the Cash and Bank Account are brought down to this account from the last Balance Sheet and the closing balances of these accounts are transferred to the Balance Sheet prepared at the end of that accounting year.

(8) Accounting items such as Bad debts, R.D.D., Depreciation provided on the fixed assets, etc. are not recorded in this book because they are non-cash items of the business.

2.8 Types of Receipts :

Receipts may be of two types viz. (i) Capital Receipts and (ii) Revenue Receipts.

2.8.1 Capital Receipts :

Receipts which are non-recurring in nature and do not form the part of regular flow of business income are called Capital Receipts.

Examples : Sale proceeds of fixed assets, life membership fees, donation received for building construction, etc.

Capital receipts may be either added to capital fund or treated separately on the Liabilities side of the Balance Sheet.

2.8.2 Revenue Receipts :

Receipts which are recurring in nature and also form the part of regular flow of business income are called Revenue Receipts.

Examples : Subscriptions received from members, interest on investments received, rent received, entrance/ admission fees, etc.

2.9 Types of Payments :

Payments may be classified into three categories viz. (i) Capital expenditure (ii) Revenue expenditure and (iii) Deferred Revenue expenditure.

2.9.1 Capital Expenditure :

An expenditure which is non-recurring in nature and benefits of which are likely to be received for a long period of time is called Capital expenditure. It is usually spent to increase fixed assets units, to increase earning capacity, efficiency and life span of the fixed assets and to achieve economy of operation of existing fixed assets.

Examples : Amount spent on purchase of land, building, machinery, furniture, etc.

2.9.2 Revenue Expenditure :

An expenditure which is incurred for carrying out day-to-day business activities and maintaining fixed assets in working condition is called Revenue expenditure. It is recurring in nature and benefits of which are enjoyed immediately.

Examples : Amount spent on payment of wages and salaries, rent, taxes, insurance premium, commission, etc.

2.9.3 Deferred Revenue Expenditure :

Expenditure which is basically of revenue nature but benefits of which are received for more than one or more years is called Deferred revenue expenditure.

Example : Advertisement expenditure paid at a stretch for 4 years say ₹ 40,000. In this case, 1/4 of ₹ 40,000 i.e. ₹ 10,000 is required to be written off to Income and Expenditure A/c in the Current year and balance of ₹ 30,000 is required to be shown on the Assets side of Balance Sheet.

2.10 Specimen of Receipts and Payments Account :

In the books of ....

Dr. **Receipts and Payments Account for the year ended 31st March, 20......** **Cr.**

Receipts	Amount (₹)	Amount (₹)	Payments	Amount (₹)	Amount (₹)
To Balance b/d			By Balance b/d		XXX
Cash in Hand	XXX		(Bank overdraft)		
Cash at Bank	XXX	XXX	By Salaries		
To Subscriptions			Previous Year	XXX	
Previous Year	XXX		Current Year	XXX	XXX
Current Year	XXX		By Rent, Rates and Taxes		
Next Year	XXX	XXX	Previous Year	XXX	
To Admission Fees		XXX	Current Year	XXX	
To Entrance Fees		XXX	Next Year	XXX	XXX
To Life Membership Fee		XXX	By Printing and Stationery		XXX
To Donation (General)		XXX	By General Expenses		XXX
To Donations for Specific Fund		XXX	By Interest on Bank Loan		XXX
(Building fund, prize fund, etc.)			By Electricity charges		XXX
To Government Grant		XXX	By Audit fees		XXX
To Legacies		XXX	By Postage and telegram		XXX
To Hire / Rent of Hall received		XXX	By Travelling Expenses		XXX
To Locker Rent		XXX	By Conveyance		XXX
To Interest Received		XXX	By Insurance Premium		XXX
To Sundry Incomes		XXX	By Telephone / Mobile Expenses		XXX

To Miscellaneous Receipts		XXX	By Bank Charges		XXX
To Tournament Receipts		XXX	By Books Purchased		XXX
To Cricket Fees		XXX	By Medicines Purchased		XXX
To Tuition Fees		XXX	By Office expenses		XXX
To Term Fees		XXX	By Prizes		XXX
To Examination Fees		XXX	By Purchases of Investments		XXX
To Dividend Received		XXX	(like govt. securities/bonds)		
To Tennis Court Receipts		XXX	By Furniture Purchased		XXX
To Collection for Annual Function		XXX	By Sports Material Purchased		XXX
To Sale of Old Newspapers / Scrap		XXX	By Newspapers and Periodicals		XXX
To Sale of Fixed Assets		XXX	By Upkeep of Lawn / Ground		XXX
To Fine Collection		XXX	By Expenses for Annual Function		XXX
To Sale of Old materials		XXX	By Honorarium to Visiting		
To Balance c/d		XXX	Faculty		XXX
(Bank overdraft)			By Fixed Deposit		XXX
			By Building Construction		
			Addition to Building		XXX
			By Restaurant expenses		XXX
			By School Bus / Motor-Car		
			Maintenance		XXX
			By Repairs and Maintenance		XXX
			By Equipments Purchased		XXX
			By Tennis Expenses		XXX
			By Balance c/d		XXX
			Cash in Hand		XXX
			Cash at Bank		XXX
	–	XXX		–	XXX

2.11 Meaning of Income and Expenditure Account :

An account which is prepared by the 'Not for Profit' concern to record expenses and incomes of revenue nature and to ascertain whether the concern has sufficient incomes to meet its expenses, is called Income and Expenditure Account. It is just similar to the Profit and Loss Account of the trading concerns.

Other Information : In this Account only incomes or gains of revenue nature that too of the current year are recorded on the credit side.

Examples : Subscriptions received, Entrance fees received, Sundry receipts, Donations (General) received, etc.

Please note that revenue incomes pertaining to current year whether actually received or not or received during past year are recorded in this account.

Similarly, in this account only revenue expenditure of current year whether actually paid or not or paid during previous year are recorded on debit side.

Debit balance of Income and Expenditure A/c indicates deficit which is deducted from the Capital fund and Credit balance of Income and Expenditure A/c shows surplus which is added to the Capital fund.

In this account capital receipts and capital expenditure are not recorded. They are directly recorded in the Balance Sheet.

1.12 Features of Income and Expenditure Account :

The features of Income and Expenditure Account are explained as follows :

(1) Income and Expenditure Account is a Nominal Account.

(2) In this account only revenue expenses and revenue incomes relating to current year are recorded.

(3) This account is just like Profit and Loss Account. It gives result of the working of the organisation. 'Not for Profit' concerns prepare Income and Expenditure Account in place of Profit and Loss Account.

(4) This account is prepared with the primary aim of finding out surplus or deficit of the 'Not for Profit' concern over the particular accounting year.

(5) This account is a part of final accounts of 'Not for Profit' concern and hence it is always prepared with Balance Sheet.

(6) No opening balance is shown in this account.

(7) At the end of the accounting year, the debit balance of this account shows a deficit and the credit balance of this account indicates a surplus.

(8) All cash items such as salaries paid, rent paid, etc. as well as non-cash items such as outstanding salaries, bad debts written off, depreciation, provisions for bad debts, discount, etc. are also recorded in this account.

2.13 Specimen of Income and Expenditure Account :

In the books of ....

Dr. **Income and Expenditure Account for the year ended 31st March, 20......** **Cr.**

Expenditure	Amount (₹)	Amount (₹)	Income	Amount (₹)	Amount (₹)
To Salaries Paid	XXX		By Subscriptions Received	XXX	
Add : Outstanding for Current			Add : Outstanding for Current		
Year	XXX		Year	XXX	
Add : Paid in Previous Year	XXX		Add : Received during		
	XXX		Previous Year	XXX	
Less : Paid for Previous Year	XXX		Less : Received for Previous		
Less : Paid for Next Year	XXX	XXX	Year	XXX	
To Stationery / Medicines /			Less : Received for Next Year	XXX	XXX
Sport Materials Used /			By Admission Fees		XXX
Consumed during the year			By Donation (Revenue /		
Opening Stock	XXX		General)		XXX
Add : Purchased during the			By Entrance Fees (Revenue)		XXX
year	XXX		By Income from Entertainment		
	XXX		Programme		XXX
Less : Closing Stock	XXX	XXX	By Life Membership Fees		
To Wages		XXX	(Revenue)		XXX
To Rent Paid		XXX	By Rent Received		XXX
To Travelling Expenses		XXX	By Hire Charges of Hall		
To Printing and Stationery		XXX	received		XXX
To Repairs and Maintenance		XXX	By Grants from Government		XXX
To Rates and Taxes		XXX	By Interest on Investments /		
To Insurance		XXX	Fixed Deposits		XXX
To Electricity Charges		XXX	By Dividend Received		XXX

To Telephone Expenses		XXX	By Ground Rent Received		XXX
To Subscriptions of Newspapers and Periodicals		XXX	By Income from Charity Show		XXX
To Office Expenses		XXX	By Drama Receipts		XXX
To Audit Fees		XXX	By Tennis Court Fees		XXX
To Sundry Expenses		XXX	By Billiards Fees		XXX
To Gardening Expenses		XXX	By Restaurant Receipts		XXX
To Honorarium to Secretary		XXX	By Subscription for Annual Function		XXX
To Depreciation on Fixed Assets		XXX	By Sale of Old Newspapers		XXX
To Ground or Lawn Upkeep Expenses		XXX	By Miscellaneous / Sundry Receipts		XXX
To Billiards Expenses		XXX	By Profit on Sale of Fixed Assets		XXX
To Conveyance		XXX	By Excess of Expenditure over Income (Deficit) *(Balancing figure)*		XXX
To Medical Expenses		XXX			
To Tennis Expenses		XXX			
To Restaurant Expenses		XXX			
To Lecturer's Honorarium		XXX			
To Refreshment Expenses		XXX			
To Drama Expenses		XXX			
To Annual functions Expenses		XXX			
To Loss on Sale of Fixed Assets		XXX			
To Interest Paid		XXX			
To Excess of Income over Expenditure (Surplus) *(Balancing figure)*		XXX			
	–	XXX		–	XXX

- **Distinction between Receipts and Payments Account and Income and Expenditure Account :**

Receipts and Payments Account	Income and Expenditure Account
(1) Meaning	
An account prepared by a 'Not for Profit' concern to record the summary of all types of cash receipts and cash payments is called Receipts and Payments account.	An account prepared by a 'Not for Profit' concern to record its expenses and incomes of revenue nature is called Income and Expenditure account.
(2) Nature of Account	
It gives the summary of the cash transactions and bank transactions. It is similar to cash book maintained by the trading organisation.	It gives the net result of working of the concern. It is similar to the Profit and Loss Account prepared by the trading concern.
(3) Type of Account	
Receipts and Payment Account is a Real Account.	Income and Expenditure Account is a Nominal Account.
(4) Opening Balance	
This account starts with opening cash and bank balances or overdraft.	No opening balance is shown in this account.

(5) Closing Balance

Closing difference of this account shows either cash and bank balance or bank overdraft.	Closing difference of this account shows either deficit or surplus.

(6) Period

All cash transactions irrespective of period of occurrence, if received and paid in the relevant accounting year are recorded.	Income and expenses relating to the relevant (current) accounting year only are recorded.

(7) Nature of Items

In this account only cash transactions (items) are recorded.	In this account cash as well as non-cash transactions (items) are recorded.

(8) Concerned Period

Incomes and expenditures of both capital and revenue nature if received or paid during the current year are recorded in this account.	Only revenue incomes and expenditure related to current year whether received or not are recorded in this account.

(9) Contains

In this account, transactions relating to all types of accounts viz. Personal Acccount, Real Account and Nominal Account are recorded.	In this account, only transactions relating to Nominal Account are recorded.

(10) Balance Sheet

It is never accompanied by a Balance Sheet.	It is always prepared along with Balance Sheet.

2.15 Preparation of Income and Expenditure Account :

Income and Expenditure Account is prepared on the basis of Receipts and Payments Account and additional information if any. It is a Nominal Account and hence all expenses and losses of revenue nature are debited to this account and all incomes and gains of revenue nature are credited to this account. The method of preparation of Income and Expenditure Account is similar to that of preparation of Profit and Loss Account.

2.16 Preparation of Balance Sheet :

Balance Sheet of a Non Trading organisation is similar to Balance sheet of sole trading concern. To get the exact idea of financial position of an organisation on a particular date, Balance sheet is prepared with the capital receipts and capital Expenditures amounts. Generally, excess of Assets over Liabilities is called as capital fund. If 'Capital Fund' balance is not known, it can be found out by preparing opening balance sheet.

2.17 Specimen of Balance Sheet :

Balance Sheet as on 31st March, 20 ....

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital Fund			**Fixed Assets**		
Opening Balance	XXX		Land and Buildings		XXX
Add : Life Membership Fees	XXX		Furniture and Fixtures		XXX
(if capitalised)			Machinery and Computers		XXX
Add : Entrance Fees	XXX		Playground		XXX
(if capitalised)			Library Books		XXX

Add : Donations (if capitalised)	XXX		Vehicles		XXX
Add : Excess of Incomes over Expenditure	XXX		Sports Equipment		XXX
			Investments		XXX
Less : Excess of Expenditure over Income	XXX	XXX	Fixed Deposits		XXX
			Special Fund Investment		XXX
Fund (of different nature)			**Current Assets**		
Building Fund	XXX		Stock of Stationery		XXX
Endowment Fund	XXX		Stock of Drugs		XXX
Tournament Fund	XXX		Stock of Sports Materials		XXX
Charity Fund	XXX	XXX	Cash in Hand		XXX
Special Fund (e.g. Prize Fund)	XXX	XXX	Cash at Bank		XXX
Add : Interest or Income (Donation)	XXX	XXX	Loans given		XXX
			Prepaid Expenses		XXX
Less : Expenses (Prize distribution)	XXX	XXX	Subscriptions Receivable for Current and Past Years		XXX
Sundry Creditors		XXX	Interest Receivable on Investments / or Accured Interest		XXX
Loans from Financial Institutions or others		XXX			
Bank Overdraft			Other outstanding Incomes / or Income Receivable		XXX
Outstanding Expenses for Current and Past Years		XXX			
Income Received in Advance		XXX			
Subscriptions Received in Advance		XXX			
	–	XXX		–	XXX

2.18 Adjustments :

Sr. No.	Adjustments	Accounting treatment in	
		Income and Expenditure Account	**Balance Sheet**
1.	Outstanding Expenses	Add to concerned expenses on the debit side.	Show 'Outstanding Expenses' on the Liabilities side.
2.	Prepaid Expenses	Deduct from the related expenses on the debit side.	Show 'Prepaid Expenses' on the Assets side.
3.	Accured Income	Add to related income on the credit side.	Show 'Accured Income' on the Assets side.
4.	Income received in advance	Deduct from the related income on the credit side.	Show 'Income received in advance' on Liabilities side.
5.	Subscriptions received in advance	Deduct the amount of subscriptions received in advance from subscriptions on the credit side.	Show 'Subscriptions received in advance' on the Liabilities side of Balance Sheet.
6.	Subscriptions outstanding (receivable)	Add the amount of subscriptions outstanding (receivable) to subscriptions on credit side.	Show 'Subscriptions Outstanding' (receivable) on the Assets side of Balance Sheet.

7.	Depreciation on fixed assets	Show 'depreciation' on the debit side.	Deduct 'depreciation' from the related fixed asset on the Assets side.
8.	Capitalisation of entrance fees	Deduct the amount of capitalisation of entrance fees from entrance fees on credit side.	Add the amount of capitalisation of entrance fees to capital fund on the Liabilities side.
9.	Creation of special funds out of donation	Deduct the amount of special funds so created from the donations on credit side.	Show separately special funds so created on the Liabilities side.
10.	Closing stock of stationery	Deduct the closing stock of stationery from 'Printing and Stationery' on debit side.	Show 'stock of stationery' separately on the Assets side.

2.19 Implied Adjustments :

Sr. No.	Adjustment given in the trial balance	Treatment in	
		Income and Expenditure Account	Balance Sheet
1.	Salaries / Rent paid (for 10 months)	Add the amount of Salaries / Rent for 2 months to Salaries / Rent respectively.	Show separately the amount of Salaries / Rent for 2 months on the Liabilities side of the Balance Sheet.
2.	Insurance premium paid for 1 year ending 30th June, 2020 (Accounting year ends on 31st March, 2020)	Deduct the proportionate amount of insurance premium for 3 months from 'Insurance' on the debit side of Income and Expenditure Account.	Show separately the amount of Prepaid Insurance on the Assets side of the Balance Sheet.
3.	Advertisement expenses (Paid for 4 years)	Show 1/4th amount of Advertisement expenses on the debit side of Income and Expenditure Account.	Show the remaining i.e. 3/4th of Advertisement expenses (not written off) on the Assets side of the Balance Sheet.
4.	Rent received (for 11 months)	Add the proportionate amount of Rent for one month to Rent received on credit side of Income and Expenditure Account.	Show the same amount on the Assets side of the Balance Sheet.
5.	10 % loan (Borrowed on 1st Oct. 2019) (Accounting year ends on 31st March, 2020)	Show the amount of Interest on loan for 6 months on the debit side of Income and Expenditure Account.	Add the amount of Interest to loan on the Liabilities side of the Balance Sheet.
6.	16 % Investment (Purchased on 1st January, 2020) (Accounting year ends on 31st March, 2020)	Show the amount of Interest on investment for 3 months on the credit side of the Income and Expenditure Account.	Add the amount of Interest on investment on the Assets side of the Balance Sheet.
7.	10 % Government Bonds	Show the amount of Interest on the credit side of Income and Expenditure Account.	Add the amount of Interest to Government Bonds on the Assets side of the Balance Sheet.

8.	Leasehold Land ₹ 1,60,000 (for 10 years from 1/04/2019) Accounting year ends on 31/03/2020.	Show Depreciation of ₹ 16,000 on debit side of Income & Expenditure A/c.	Show value of Leasehold Land after deducting depreciation i.e., 1,60,000 – 16,000 = ₹ 1,44,000 on the assets side of Balance Sheet.
9.	Sale of part of the furniture for ₹ 8,000 (Book value ₹ 7,500)	Show profit of ₹ 500 on the credit side of Income & Expenditure A/c .	Deduct the cost of furniture ₹ 7,500 from the value of furniture and remaining balance should be shown on the Assets side of Balance Sheet.
10.	Sale of part of the Machinery for ₹ 15,000 (Book value ₹ 20,000)	Show Loss of ₹ 5,000 on the debit side of Income and Expenditure A/c.	Deduct the cost of machinery ₹ 20,000 from the value of Machinery and show remaining balance on the Assets side of Balance Sheet.

2.20 Accounting treatment of the important items :

(1) Capital Fund : The excess of total assets over the total liabilities is called capital fund. Capital fund is recorded on the Liabilities side of Balance Sheet prepared by the 'Not for Profit' concern. It is created out of capital incomes and capitalisation of funds or incomes such as donations, entrance fees, admission fees, etc. The surplus shown by the Income and Expenditure Account is added to Capital Fund and deficit if any shown by Income and Expenditure Account is deducted from Capital Fund.

(2) Entrance Fees or Admission Fees : Fees or specific amount received from the new members at the time of their entry into the 'Not for Profit' concern are called Entrance fees or Admission fees. It is different from annual subscription received from the members. It is paid by each member only at the time of his admission. Capital fund of 'Not for Profit' concern is mainly made of entrance fees received from all the past and present members. Some people argue that entrance fees are capital receipt as it is received only once from each member. It is not recurring in nature. While others have pointed out that entrance fees are revenue receipt because though it is paid only once by each member, it is received regularly by the 'Not for Profit' concern.

Note : *In the absence of any specific information given in the problem, entrance fees should be treated as revenue receipt. If any specific instruction is given in the problem, entrance fees should be treated accordingly. If according to instruction 60 % of entrance fees is to be capitalised, then 60 % of entrance fees is to be added to capital fund on Liabilities side of Balance Sheet and remaining 40 % of entrance fees is to be credited to the Income and Expenditure Account.*

(3) Subscriptions : A payment as a contribution by the members towards some object or service, is called subscription received. It may be a payment or promise of payment for subscription of a magazine, newspaper, book, etc., over a specified period of time. In such a case it is called subscription paid. Subscriptions or fees received from the members constitute the main source of income for a 'Not for Profit' concern. All subscriptions received will be recorded on the debit side of Receipts and Payments Account. Out of such subscriptions, subscriptions relating to current accounting year are transferred and recorded on the credit side of the Income and Expenditure Account. It is considered as revenue receipt.

(4) Legacy : Any asset, property or amount of cash which 'Not for Profit' concern receives as per the provisions made in the will of the donor on his death is called legacy. As and when cash is received as legacy, it is recorded on the debit side of the Receipts and Payments Account. Since amount received on legacy is not of recurring nature, it is considered as capital receipt. Therefore, it is shown on the Liabilities side of the Balance Sheet.

(5) Life Membership Fees : The member of the 'Not for Profit' concern, if wants to become a life member, he is required to pay a lump sum amount of fees to the concern either at the time of his entry or later. Such amount of fees is called life membership fees. Life membership fees are non-recurring in nature because members are required to pay the fees once in a lifetime and not periodically. Since it is a capital receipt, it is added to the capital fund on the Liabilities side of the Balance Sheet.

(6) Sale of Old Assets : Fixed assets like machinery, furniture, office equipments, etc., are sold by the 'Not for Profit' concern when they become old or outdated. Profit or Loss on sale of such assets is ascertained by using the following formulae :

(i) Profit on Sale of old Assets = Sales proceeds – Cost of Sale of old Assets.

(ii) Loss on Sale of old Assets = Cost of Sale of old Assets – Sales proceeds.

Sale proceeds so received are recorded in Receipts and Payments Account on receipts side. If 'Not for Profit' concern earn profit on sale of old assets, the amount of such profit, is recorded on the credit side of Income and Expenditure Account. In case there is a loss on sale of old assets, the amount of such loss is debited to Income and Expenditure Account.

(7) Scrap : Small piece of something larger, parts of the outdated machines, waste materials, used articles especially metals, etc. are called scrap. Scrap value refers to the net amount which is realised on the final disposal of scrap. The amount received on sale of scrap is first recorded on the debit side of Receipts and Payments Account. It is treated as miscellaneous income and as such it is credited to Income and Expenditure Account.

(8) Newspapers : Newspapers, periodicals, magazines, etc. are used by the members of the 'Not for Profit' concern to update their knowledge. The amount received from the sale of old newspapers, periodicals, magazines, weeklies, etc. is shown on the debit side of the Receipts and Payments Account and then posted on the credit side of the Income and Expenditure Account. It is considered as miscellaneous income.

(9) Specific Donations : Donation i.e., the gift in monetary terms received from the members or outsiders for a specific purpose like donation for building, charity, etc., is called specific donation. Donation received for specific purpose is treated as capital receipt and is added as contribution to specific fund on the Liabilities side of the Balance Sheet. Expenses spent for acquiring such donations are not debited to Income and Expenditure Account, but they are deducted from the amount of such donations only.

(10) General Donations : Donations may be classified as general donations and specific donations. Donations received for general purpose like welfare of members, achieving general aims and objectives of the concern, etc. are called general donations. General donations are treated as revenue receipts as they are expected to be received every year. In case no specific information is given in any problem, donation should be treated as revenue income and accordingly, it should be considered in Income and Expenditure Account as income.

(11) Specific Fund : Fund created for specific purpose is called specific fund. Specific fund may be created for the construction of building, construction of operation theatre, swimming pool, awarding prizes, etc. If specific fund is created, then all incomes and expenses relating to the specific fund should not be recorded in the Income and Expenditure Account. All incomes relating to specific fund are added to that fund and all the expenses related to it are deducted from that specific fund. The balance of specific fund is shown on the Liabilities side of the Balance Sheet.

(12) Endowment Fund : Fund which is created or raised from bequest (means the thing that is left by a will) or gift, the income of which is used or devoted for a specific purpose is called endowment fund. In other words, fund which provides permanent source of income to the institution is called endowment fund. The amount of such fund is invested in the government or non-government securities to create a source of regular income. The amount of income or interest received from the investment of endowment fund is used for a specific purpose, e.g., distribution of prizes to the meritorious students in the society, etc. An amount received for endowment fund is considered as capital receipt because such fund provides permanent source of income to the 'Not for Profit' concern. It appears on the receipts side or debit side of the Receipts and Payments Account. It is shown separately on the Liabilities side of the Balance Sheet. The amount of income or interest received from the investment of endowment fund is not credited to Income and Expenditure Account but to be added to endowment fund. Similarly all expenses relating to endowment fund are to be deducted from the amount of such fund.

EXERCISE

(A)* (1) Select the most appropriate alternatives from the following and rewrite the sentences :

(1) Not for Profit concern renders --------- services to public at large.

(a) commercial (b) social (c) individual (d) group

(2) Donation for Scholarship Fund is --------- .

(a) Capital Receipt (b) Revenue Receipt (c) Capital Expenditure (d) Revenue Expenditure

(3) Income and Expenditure Account is a --------- Account.

(a) Capital (b) Real (c) Personal (d) Nominal

(4) Outstanding subscription at the end of the Accounting Year represents ---------- .

(a) Liability (b) an Expenditure (c) an Asset (d) Capital Fund

(5) Subscription received in advance during the accounting year is ---------- .

(a) an Income (b) an Expense (c) an Asset (d) a Liability

(6) Excess of Income over Expenditure is termed as --------- .

(a) Deficit (b) Profit (c) Surplus (d) Loss

(7) Not for Profit concern prepares --------- Account instead of Profit and Loss Account to know the result.

(a) Trading (b) Income and Expenditure (c) Cash (d) Receipt and Payments

(8) The closing balance of Receipts and Payments Account usually represent --------- .

(a) Closing stock (b) Cash and Bank Balance (c) Surplus (d) Deficit

(9) Not for Profit organization is also called --------- organization.

(a) service (b) trading (c) profit making (d) commercial

(10) Expenditure on Purchase of Building is a --------- Expenditure.

(a) Capital (b) Revenue (c) General (d) Recurring

Ans. (1) social (2) Capital Receipt (3) Nominal (4) an Asset (5) a Liability (6) Surplus (7) Income and Expenditure (8) Cash and Bank Balance (9) service (10) Capital

(2) (1) Purchases of stationery is a --------- expenditure.
(a) capital (b) revenue (c) long-term (d) deferred revenue

(2) Usually --------- is a major source of revenue income for 'Not for Profit' concerns.
(a) subscription (b) donations (c) legacies (d) entrance fees

(3) An Income and Expenditure Account and a Balance Sheet are prepared as final accounts by a --------- .
(a) 'Not for Profit' concern (b) Trading concern
(c) commercial organisation (d) Public Limited Company

(4) Non-cash items are not recorded in --------- .
(a) Income and Expenditure Account (b) Receipts and Payments Account
(c) Balance Sheet (d) Profit and Loss Account

(5) The excess of assets over liabilities is termed as --------- .
(a) surplus (b) deficit (c) capital fund (d) loan

(6) For a library, expenditure on the purchase of books is a --------- Expenditure.
(a) Capital (b) Revenue (c) General (d) Recurring

(7) --------- Account starts with the opening Cash Balance.
(a) Income and Expenditure (b) Receipts and Payments
(c) Capital Fund (d) Subscriptions

(8) Only --------- incomes and expenses are shown in the Income and Expenditure Account.
(a) revenue (b) capital (c) business (d) non-recurring

(9) A debit balance on the Income and Expenditure Account denotes --------- .
(a) deficit (b) surplus (c) profit (d) excess of income over expenditure

(10) Non-trading organisation writes summary of all cash transactions in the --------- Account.
(a) Cash (b) Receipts and Payments
(c) Income and Expenditure (d) Profit and Loss

Ans. (1) revenue (2) subscription (3) 'Not for Profit' concern (4) Receipts and Payments Account (5) capital fund (6) Capital (7) Receipts and Payments (8) revenue (9) deficit (10) Receipts and Payments

(3) (1) Both capitalised receipts and capital expenditure are shown in the --------- .
(a) Profit and Loss A/c (b) Balance Sheet
(c) Trading A/c (d) Income and Expenditure A/c

(2) 'Not for Profit' organisation prepares --------- to find out its financial position.
(a) Receipts and Payments A/c (b) Balance Sheet
(c) Trading A/c (d) Income and Expenditure A/c

(3) Subscriptions received from the members is considered as --------- receipts.
(a) capital (b) revenue (c) non-recurring (d) commercial

(4) Fund which provides permanent source of income to non-trading organisation is called --------- fund.
(a) endowment (b) general (c) specific (d) capital

(5) For a public hospital, expenditure on the purchase of medicines is a --------- Expenditure.
(a) General (b) Non-recurring (c) Capital (d) Revenue

(6) Which of the following items will not appear in the Balance Sheet of a club ?

(a) Subscriptions received in advance *(b) Special donation received during the year*
(c) Subscriptions due for the year *(d) Entrance fees paid by new members*

(7) The main purpose of incurring a --------- expenditure is to earn an income or to increase the earning capacity of the business.

(a) recurring *(b) capital* *(c) revenue* *(d) business*

(8) Excess of Expenditure over Income is termed as --------- .

(a) Surplus *(b) Deficit* *(c) Capital Fund* *(d) Profit*

(9) Receipts and Payments Account is a --------- .

(a) Personal Account (b) Real Account (c) Nominal Account (d) Profit and Loss Account

Ans. (1) Balance Sheet (2) Balance Sheet (3) revenue (4) endowment (5) Revenue (6) Entrance fees paid by new members (7) capital (8) Deficit (9) Real Account

(B) * (1) Write the word / phrase / term, which can substitute each of the following sentences :

Statement	Ans. (word / phrase / term)
(1) The Form of Organization providing services to the society only.	Not for Profit concern
(2) An account which is prepared by Not for Profit concern instead of Profit and Loss Account.	Income and Expenditure Account
(3) Donation received for a specific purpose.	Specific donation / Capital Receipt
(4) The Receipts which are not recurring in nature.	Capital Receipt
(5) An Account which records only revenue items in case of Not for profit concern.	Income and Expenditure Account
(6) Accounts which records only cash transactions in case of Not for Profit concern.	Receipts and Payments Account
(7) The income which is earned during the year but not received during the year.	Outstanding income
(8) The credit balance of Income and Expenditure Account.	Surplus
(9) To excess of total assets over total liabilities of a Not for Profit concern.	Capital Fund
(10) All such receipts which are non-recurring in nature and not forming a part a regular flow of income.	Capital Receipts

(2)

Statement	Ans. (word / phrase / term)
(1) Such concerns, which are formed for rendering some useful services to its members without having profit motive.	'Not for Profit' concern
(2) Excess of expenditure over income of 'Not for Profit' concerns.	Deficit
(3) A statement showing the financial position of a concern on a particular date.	Balance Sheet
(4) The debit balance of an Income and Expenditure Account.	Deficit
(5) Fees received from the member only once at the time of his entry into the 'Not for Profit' concern.	Life membership fees
(6) Specific amount paid by the members annually to non-trading organisation to get certain services or benefits.	Subscription

Statement	Ans. (word / phrase / term)
(7) Donation or gift received from the members or outsiders for specific purpose.	Specific donation
(8) Donation received for general purpose like welfare of the members or society.	General donation
(9) The gifts received from legal representatives as per the will of a deceased person.	Legacies
(10) An expenditure which is incurred for carrying the day-to-day business activities.	Revenue Expenditure
(11) Capital resources which are owned and possessed by the 'Not for Profit' concern.	Capital Fund

(3)

Statement	Ans. (word / phrase / term)
(1) An account which is prepared by the 'Not for Profit' concern to record summary of all types of receipts and payments.	Receipts and Payments Account
(2) Closing debit balance of Receipts and Payments Account.	Cash in Hand and or Cash at Bank
(3) A payment made by the non-trading organisation periodically for consecutive issue of magazines, newspapers, etc.	Subscriptions paid
(4) The major source of revenue to a 'Not for Profit' concern, from its members.	Subscriptions
(5) Fees paid by persons to become members of a 'Not for Profit' concern.	Entrance Fees or Admission Fees
(6) The concerns which prepare Income and Expenditure Account instead of Profit and Loss Account.	'Not for Profit' concern
(7) The expenditure which is recurring in nature.	Revenue Expenditure
(8) The expenditure which is non-recurring in nature.	Capital Expenditure
(9) An account opened by non-trading concerns, to find out surplus / deficit during the particular financial year.	Income and Expenditure Account

(C) * (1) State whether the following statements are True or False with reasons :

(1) Not for Profit concerns do not have profit motive.

Ans. This statement is **True**.

Not for profit concerns', main aim is to give services to its members or to the society at large. They do not carry any Trading activity or Manufacturing activity so there is no question of having profit motive for 'Not for Profit' concerns.

(2) Charitable Institutions prepare Profit and Loss Accounts at the end of every financial year.

Ans. This statement is **False**.

Charitable Institutions, Not for Profit concerns, do not undertake any trading activities and hence instead of Profit and Loss Account prepare Income-Expenditure Account to record all revenue expenses / losses and revenue incomes / gains of current year.

(3) There is no difference between Receipts and Payments Account and Income and Expenditure Account.

Ans. This statement is **False**.

In the Receipts and Payments Account, all receipts and payments transactions in cash or through bank are recorded irrespective of the current year, previous year or next year while in Income-Expenditure Account, only current year's incomes and expenses (Revenue) are recorded.

(4) Income and Expenditure Account represents either surplus or deficit.

Ans. This statement is **True**.

In Income and Expenditure Account, all revenue incomes and expenses are recorded and at the end of the specified period, difference is found out which is known as 'Surplus' (Revenue incomes are more than Revenue expenses) or 'Deficit' (Revenue expenses are more than Revenue incomes).

(5) Receipts and Payments Accounts do not have any opening balance.

Ans. This statement is **False**.

Receipts and Payments Account is just like a cash book of trading concern and opening balance (Cash or Bank or Cash and Bank) must be there to start recording of transactions.

(6) Not for Profit concerns do not prepare Balance Sheet.

Ans. This statement is **False**.

To know financial position of organisation, at the end of the particular period, Not for Profit concerns prepare Balance Sheet.

(7) Purchases of Sports Equipments is a Capital Expenditure.

Ans. This statement is **True**.

Generally, life span of sports equipments is more than one year, so purchase of sports equipment is considered as capital expenditure.

(8) Income and Expenditure Account is Real Account.

Ans. This statement is **False**.

In Income and Expenditure Account, all the revenue incomes and revenue expenses are recorded and therefore it is a Nominal Account and not a Real Account.

(9) Receipts and Payments Account contains only the transactions relating to the current year.

Ans. This statement is **False**.

In Receipts and Payments Account, transactions of not only current year but of previous year or of next year are also recorded.

(10) Excess of Assets over liabilities is called Capital Fund.

Ans. This statement is **True**.

For 'Not for Profit' concerns in the Balance Sheet, when total of Assets is more than the total of Liabilities, the difference of amount is considered as 'Capital Fund'.

(2) **(1) All receipts are the items of revenue income.**

Ans. This statement is **False**.

In 'Not for Profit' concern receipts includes revenue receipts as well as capital receipts of current year or of previous year or of next year, so we can say that all receipts are not the items of revenue income.

(2) In the Income and Expenditure Account, all incomes received during the year irrespective of the year for which they are received, are to be recorded.

Ans. This statement is **False**.

In the Income and Expenditure Account, all revenue incomes, received during the current year, are to be recorded only.

(3) Receipts and Payments Account shows the amount of profit earned or loss suffered during a year.

Ans. This statement is **False**.

Receipts and Payments Account shows the amount of receipts and payments (in cash or through bank) of any year in the current year and do not shows any profit earned or loss suffered during a year.

(4) Every year 'Not for Profit' concerns, prepares Income and Expenditure Account.

Ans. This statement is **True**.

To get the idea of sufficient income, other expenditure, for smooth run of concern, every year 'Not for Profit' concern prepares Income and Expenditure Account.

(5) 'Deficit' means excess of income over expenditure in the Income and Expenditure Account.

Ans. This statement is **False**.

In the Income and Expenditure Account 'Deficit' means excess of expenditure over incomes.

(6) 'Revenue receipts' means receipts which are not recurring in nature.

Ans. This statement is **False**.

Revenue Receipts means receipts which frequently takes place and which are recurring in nature.

(D) * (1) Complete the Sentences :

(1) Not for Profit organization is never engaged in .... activities.
(2) Not for Profit organization is called .... organization.
(3) Receipts and Payments Account falls under the category of .... Account.
(4) In Receipts and Payment Account the summary of .... transactions are recorded.
(5) Income and Expenditure Account is similar to the .... Account of Trading concern.
(6) Credit side of Receipts and Payments Account shows cash ....
(7) Income and Expenditure Account is a .... Account.
(8) Mumbai University prepares .... Account instead of a Profit and Loss account.
(9) Subscription received from the members is considered as .... receipts.
(10) The transactions recorded in Income and Expenditure Account related only to the .... year.

Ans. (1) trading (2) service (3) Real (4) cash (5) Profit and Loss (6) payments (7) Nominal (8) Income and Expenditure (9) revenue (10) current

(2) (1) An Income and Expenditure Account and a Balance Sheet are prepared as final account by a ....
(2) .... is a major source of revenue income for 'Not for Profit' concern.
(3) Non-cash items are not recorded in ....
(4) .... concerns have profit motive.
(5) In a Trading concerns .... is prepared to know the financial position of the business.
(6) Excess of Receipts over Payments means ....
(7) Legacy is received by 'Not for Profit' concerns on a .... basis.
(8) Incomes which are to be capitalised are to be added to ....
(9) Subscription received in advance, in current year, is to be .... from subscription amount.
(10) Subscription received in advance, in previous year is to be .... to subscription amount.
(11) Locker's rent is .... for 'Not for Profit' concern.
(12) Life membership fees, Legacy, Surplus, etc. are to be .... to Capital Fund.
(13) All revenue incomes and revenue expenses are to be recorded in ....

(14) All Receipts and Payments are recorded in the Receipts and Payment Account .... of the year.

(15) Incomes or Expenses having recurring nature are known as .... incomes or expenses.

Ans. (1) 'Not for Profit' concern (2) Subscription (3) Receipts and Payments Account (4) Trading (5) Balance Sheet (6) Cash or Bank balance (7) permanent (8) Capital Fund (9) subtracted (10) added (11) revenue income (12) added (13) Income and Expenditure Account (14) irrespective (15) revenue

(E) * (1) Answer in one sentence only :

(1) What do you mean by 'Not for Profit' Concern ?

Ans. A concern or organisation which is formed and established to serve its members and society or general public by undertaking various activities without any profit motive is called a 'Not for Profit' concern.

(2) Which organisations prepares Income and Expenditure Account ?

Ans. 'Not for profit' concern prepares Income and Expenditure Account.

(3) What is Receipts and Payments Account ?

Ans. An account which is prepared by a 'Not for Profit Concern' to record summary of all types of cash receipts and cash payments inclusive of bank transactions is called Receipts and Payments Account.

(4) Why Income and Expenditure Account is prepared ?

Ans. Income and Expenditure Account is prepared to ascertain, whether the concern has sufficient incomes to meet its expenses, or not.

(5) What is Capital Fund ?

Ans. Excess of Assets over Liabilities is known as Capital Fund which also consists of contributions, subscription, entrance fees, surplus income, etc.

(6) What is Subscription ?

Ans. Subscription is the periodical payment made by the members to the 'Not for Profit' concern for maintaining his membership.

(7) What is 'Legacy' ?

Ans. Any asset, property or amount of cash which 'Not for Profit' concern receives as per the provisions made in the will of the donor after his death is called Legacy.

(8) What is Surplus ?

Ans. Excess of income over expenditure shown by Income and Expenditure Account represents Surplus for the financial year.

(9) What do you mean by Non-recurring Expenses ?

Ans. Non-recurring expenses are the expenses which is made for acquisition of fixed assets which gives benefits for a long period.

(10) To which account 'Surplus' or 'Deficit' is transferred ?

Ans. 'Surplus' or 'Deficit' is transferred to Balance Sheet by adding it or subtracting it from Capital Fund.

(2) (1) What is deferred revenue expenditure ?

Ans. Expenditure which is basically revenue expenditure but benefits of which accured to the organisation for more than one year is called deferred revenue expenditure.

(2) What is Entrance Fees ?

Ans. The fees which is paid by the persons who wish to become a member of the organisation are called Entrance Fees.

(3) What is Deficit ?

Ans. Excess of expenditure over income shown by Income and Expenditure Account is called Deficit for the financial year.

(4) State the meaning of Revenue Expenditure.

Ans. An expenditure which is incurred for carrying day-to-day business activities and maintaining fixed assets in working condition is called Revenue Expenditure.

(5) What do you mean by Capital Expenditure ?

Ans. An expenditure which is non recurring is nature and incurred to purchase new fixed assets, to increase earning capacity, efficiency and working life of the existing fixed assets and to achieve economy of operation an existing fixed assets is called Capital Expenditure.

(6) Which final accounts do the 'Not for Profit' concern prepare ?

Ans. 'Not for Profit' concern prepare Income and Expenditure Account and Balance Sheet as their final accounts.

(7) Give the examples for 'Not for Profit' concerns.

Ans. Examples of 'Not for Profit' concerns are : sports club, charitable hospitals, schools, colleges, universities, welfare association, chamber of commerce, etc.

(8) What do you mean by Recurring Expenses ?

Ans. Recurring expenses are those expenses, benefit of which lasts for a maximum period of one year and is increased on purchase of goods or services, in order to carry out the main activity of the business.

(9) Why Receipts and Payments Account is prepared ?

Ans. To record all cash and Bank transactions taken place in the organisation, Receipt and Payment Account is prepared.

(10) In Income and Expenditure Account, which kind of incomes and expenses are to be recorded ?

Ans. In Income and Expenditure Account, 'Revenue' incomes and expenses are to be recorded.

* (F) I. Complete the Table :

Sr. No.	Income (₹)	Expenditure (₹)	Surplus / Deficit (₹)
1	10,000	?	5,000 (Deficit)
2	8,000	?	4,000 (Surplus)
3	?	15,000	8,000 (Surplus)
4	7,500	9,000	?
5	15,000	11,300	?

Solution :

Sr. No.	Income (₹)	Expenditure (₹)	Surplus / Deficit (₹)
1	10,000	**15,000**	5,000 (Deficit)
2	8,000	**4,000**	4,000 (Surplus)
3	**23,000**	15,000	8,000 (Surplus)
4	7,500	9,000	**1,500 (Deficit)**
5	15,000	11,300	**3,700 (Surplus)**

II. Salaries paid during the year :

Sr. No.	Total (₹)	Prepaid / Outstanding	(₹)	Expenditure for the year
1	1,100	Prepaid	100	?
2	2,700	Prepaid	?	2,000
3	8,250	Prepaid	?	6,650
4	1,200	Outstanding	200	?
5	?	Outstanding	600	5,100
6	1,800	Outstanding	?	2,200

Solution :

Sr. No.	Total (₹)	Prepaid / Outstanding	(₹)	Expenditure for the year
1	1,100	Prepaid	100	**1,000**
2	2,700	Prepaid	**700**	2,000
3	8,250	Prepaid	**1,600**	6,650
4	1,200	Outstanding	200	**1,400**
5	**4,500**	Outstanding	600	5,100
6	1,800	Outstanding	**400**	2,200

III. Rent received during the year :

Sr. No.	Total received (₹)	Rent Received in Advance / Accured	(₹)	Income for the year (₹)
1	1,300	Received in Advance	200	?
2	?	Received in Advance	400	1,400
3	2,650	Received in Advance	?	2,000
4	?	Accrued	290	3,190
5	1,700	Accrued	?	2,150
6	2,600	Accrued	500	?

Solution :

Sr. No.	Total received (₹)	Rent received in Advance / Accured	(₹)	Income for the year (₹)
1	1,300	Received in Advance	200	**1,100**
2	**1,800**	Received in Advance	400	1,400
3	2,650	Received in Advance	**650**	2,000
4	**2,900**	Accrued	290	3,190
5	1,700	Accrued	**450**	2,150
6	2,600	Accrued	500	**3,100**

* (G) Calculate the following :

(1) 10 % p.a. Depreciation on Furniture ₹ 50,000 (for three months)

Ans. Depreciation = Cost of Asset × Rate × Period

$$= 50{,}000 \times \frac{10}{100} \times \frac{3}{12}$$

= ₹ 1250 Depr. for 3 months

Thus, Depreciation on furniture @ 10 % on ₹ 50,000 for 3 months = ₹ 1250.

(2) 12 % p.a. Interest on Bank loan ₹ 80,000 for 1 year.

Ans. $I = \frac{PRN}{100} = 80{,}000 \times \frac{12}{100} \times 1 =$ ₹ 9600.

Thus, interest on Bank loan ₹ 80,000 for 1 year = ₹ 9600.

(3) Opening stock of stationery ₹ 5,000, purchases of stationery ₹ 7000, outstanding stationery bill ₹ 12,000, closing stock ₹ 1000. What is the amount of stationery consumed ?

Ans. To consumption of stationery :

	₹
Opening stock	5,000
Add : Purchases	7,000
Add : Outstanding stationery bill	12,000
	24,000
Less : Closing stock	1,000
Consumption of stationery	23,000

(4) Salary ₹ 10,000, outstanding salary ₹ 5,000. Calculate the salary to be debited to Income and Expenditure Account.

Ans. Dr. **Income and Expenditure Account** **Cr.**

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Salary	10,000				
Add : Outstanding Salary	5,000	15,000			

(5) Library Books ₹ .... ? Less 10 % Depreciation ₹ 5,000 = ₹ 45,000.

Ans. Library books ₹ 50,000. Less 10% Depreciation ₹ 5,000 = ₹ 45,000

%	Depr. ₹	
10	5,000	= ₹ 50,000
100	? (cost)	

* (H) Find odd one :

(1) Trading Account, Profit and Loss Account, Receipts and Payments Account, Balance Sheet.
(2) Machinery, Furniture, Computers, Salaries.
(3) Subscription, Stationery, Interest Received, Locker Rent received.
(4) Reliance Industries, Venna Vidya Mandir, Laxmi Hospital, Manoj Sports club.
(5) Surplus, Deficit, Net Profit, Capital fund.

Ans. (1) Receipts and Payments Account (2) Salaries (3) Stationery (4) Reliance Industries (5) Net Profit.

SOLVED PROBLEMS

Q. 1. With the information given below regarding 'Subscription' give accounting effects of it in the Final Accounts of a 'Not for Profit' concern :

Dr. Receipts and Payments Account for the year ended 31st March, 2020 Cr.

Receipts	Amount (₹)	Amount (₹)	Payments	Amount (₹)	Amount (₹)
To Subscriptions Received		2,43,750			

Additional Information :

(1) Subscriptions received during the year includes :
Subscriptions received for 2018–2019 ₹ 8,750 and for 2020–21 ₹ 7,500.

(2) There are 500 members of the concern and each member pays ₹ 500 as annual subscription.

(3) During the year 2018–19 subscription received for the year 2019–20 was ₹ 12,500.

Solution : **In the books of ....**

Dr. Income and Expenditure Account for the year ended 31st March, 2020 Cr.

Expenditure	Amount (₹)	Amount (₹)	Income	Amount (₹)	Amount (₹)
			By Subscriptions received during the Year 2019–20	2,43,750	
			Less : Subscriptions of Previous Year 2018–19 Received during Current year	8,750	
				2,35,000	
			Less : Subscriptions for Next Year 2020–21 Received in Advance	7,500	
				2,27,500	
			Add : Subscriptions for Current Year 2019–20 Received during Previous Year 2018–19	12,500	
				2,40,000	
			Add : Subscriptions Outstanding for Current Year 2019–20	10,000	
					2,50,000

Balance Sheet as on 31st March, 2020

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Subscriptions for Next Year : 2020–21 received in advance		7,500	Subscriptions outstanding for 2019–20 (current year)		10,000

Working Notes :

Amount of subscriptions outstanding for current year 2019–20 is calculated as follows :

Subscriptions outstanding (receivable) = (Subscriptions due from all members) – (Subscriptions received)

= (500 members × ₹ 500 per member) – (Subscriptions received during current year + Subscription received during previous year)

= (500 × 500) – (2,27,500 + 12,500)

= 2,50,000 – 2,40,000

= ₹ 10,000.

Q. 2. Show the following items in the Income and Expenditure Account for the year ended 31st March, 2018 :

Dr. Receipts and Payments Account for the year ended 31st March, 2018 Cr.

Receipts	Amount (₹)	Amount (₹)	Payments	Amount (₹)	Amount (₹)
To Subscriptions			By Salaries		73,750
2016–17	3,000		By Stationery		3,375
2017–18	15,250		By Insurance		10,000
2018–19	2,500	20,750			

Adjustments :

(1) Outstanding salaries for 2016–17 is ₹ 11,250 and of 2017 – 18 is ₹ 8,125.

(2) Opening stock of stationery is ₹ 5,000 and Closing stock of stationery is ₹ 2,500.

(3) There are 70 members paying annual subscription of ₹ 250/- each.

(4) Insurance is paid for year ended 30th June, 2018.

Solution : **In the books of ....**

Dr. **Income and Expenditure Account for the year ended 31st March, 2018** **Cr.**

Expenditure	Amount (₹)	Amount (₹)	Income	Amount (₹)	Amount (₹)
To Salaries	73,750		By Subscriptions	15,250	
Less : Outstanding Salaries of 2016–17	11,250		Add : Outstanding Subscription	2,250	17,500
	62,500				
Add : Outstanding Salaries of 2017–18	8,125	70,625			
To Insurance	10,000				
Less : Prepaid Insurance	2,500	7,500			
To Stationery					
Opening Stock	5,000				
Add : Purchased during the Year	3,375				
	8,375				
Less : Closing Stock	2,500	5,875			

Working Notes :

(1) Outstanding subscriptions for the current year 2017–18 are calculated as follows :

Outstanding subscriptions = Subscriptions due or receivable – Subscriptions received

$= 70 \times 250 - 15{,}250$

$= 17{,}500 - 15{,}250 = ₹\ 2{,}250.$

Subscriptions for 2016 – 17 and 2018 – 19 will not appear in the Income and Expenditure Account prepared for 2017 – 18.

(2) Prepaid insurance is calculated as follows :

Insurance is paid in advance for 3 months i.e. from 1st April, 2018 to 30th June, 2018.

Prepaid insurance $= \frac{3}{12} \times$ Insurance premium paid $= \frac{3}{12} \times 10{,}000 = ₹\ 2{,}500.$

Prepaid insurance deducted from Insurance on the Debit side of Income and Expenditure Account.

Q. 3. The following is the Receipts and Payments Account for the year ended on 31st March, 2019 :

Dr. Receipts and Payments Account for the year ended on 31st March, 2019 Cr.

Receipts	Amount (₹)	Amount (₹)	Payments	Amount (₹)	Amount (₹)
To Balance b / d		3,300	By Postage and Telegram		900
To Subscriptions			By Stationery Purchased		3,600
2017–18	2,340		By Fixed Deposits		60,000
2018– 19	48,900		By Picnic Expenses		4,740
2019–20	1,500	52,740	By Salaries		12,000
To Entrance Fees (To be Capitalized)		1,200	By Annual General Meeting Expenses		2,700
To Donations		30,000	By Insurance Premium		2,070
To Legacies		6,000	By Sundry Expenses		2,880
To Interest on Deposits		18,000	By Furniture		15,600
To Picnic receipts		3,450	By Balance c/d		10,200
		1,14,690			1,14,690

Adjustments :

(1) Outstanding picnic receipts ₹ 2,550.

(2) Furniture was purchased on 01 – 10 – 2018 and it is to be depreciated @ 10 % p.a.

(3) Outstanding subscriptions for current year ₹ 4,920.

(4) Stock of Stationery on 1st April 2018 was ₹ 390 and on 31st March 2019 was ₹ 690.

(5) Entire amount of legacies and 50 % of donations are to be capitalized.

With the above information, you are required to prepare Income and Expenditure Account for the year ending on 31st March 2019.

Solution : In the books of ....

Dr. **Income and Expenditure Account for the year ended 31st March, 2019** Cr.

Expenditure	Amount (₹)	Amount (₹)	Income	Amount (₹)	Amount (₹)
To Salaries		12,000	By Subscriptions Received		
To Postage and Telegram		900	for 2018–19	48,900	
To Stationery used during the			Add : Outstanding		
Year			Subscriptions for		
Opening Stock of			2018–19	4,920	53,820
Stationery	390		By Entrance Fees	1,200	
Add : Stationery			Less : Capitalisation of		
Purchased during			Entrance Fees	1,200	–
the Year	3,600		By Donations	30,000	
	3,990		Less : 50 % Capitalisation	15,000	15,000
Less : Closing stock of			By Legacies	6,000	
stationery	690	3,300	Less : Capitalisation	6,000	–
To Insurance Premium		2,070	By Picnic Receipts	3,450	
To Annual General meeting			Add : Outstanding Picnic		
expenses		2,700	Receipts	2,550	6,000
To Depreciation on furniture		780	By Interest on Deposits		18,000
To Picnic Expenses		4,740			
To Sundry Expenses		2,880			
To Excess of Income over					
Expenditure (Surplus)		63,450			
		92,820			92,820

Q. 4. From the information given below of Sarthi Education, you are required to prepare Income and Expenditure Account and Balance Sheet for the year ended on 31st March, 2019 :

Balance Sheet as on 1st April, 2018

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital Fund	2,49,550	Library Books	57,750
Loan	2,50,000	Laboratory Equipments	62,500
		Furniture	55,000
		Building	3,12,500
		Cash in Hand	1,750
		Cash at Bank	10,050
	4,99,550		4,99,550

Dr. **Receipts and Payments Account for the year ended 31st March, 2019** **Cr.**

Receipts	Amount (₹)	Amount (₹)	Payments	Amount (₹)	Amount (₹)
To Balance b/d			By Salaries		3,12,600
Cash in Hand		1,750	By Purchases		
Cash at Bank		10,050	i. Laboratoy Equipments	5,000	
To Tuition Fees		1,83,750	ii. Library Books	25,000	
To Term Fees		17,500	iii. Furniture	10,000	40,000
To Admission Fees		15,300	By Sundry Expenses		5,000
To Government Grant		1,75,000	By Printing and Stationery		17,900
(Revenue)			By Annual Social Gathering		
To Sundry Receipts		650	Expenses		9,000
			By Balance c/d		
			Cash in Hand		2,000
			Cash at Bank		17,500
		4,04,000			4,04,000

Adjustments :

(1) Tuition fees outstanding ₹ 6,750.

(2) Outstanding interest on loan ₹ 30,000.

(3) Entire admission Fees are to be capitalized.

(4) Depreciation is to be written off as under :

Library Books ₹ 25,000, Furniture ₹ 15,000, Laboratory Equipment ₹ 10,000, Building ₹ 15,000.

Solution : **In the books of Sarthi Education**

Dr. **Income and Expenditure Account for the year ended 31st March, 2019** **Cr.**

Expenditure	Amount (₹)	Amount (₹)	Income	Amount (₹)	Amount (₹)
To Salaries		3,12,600	By Tuition Fees	1,83,750	
To Printing and Stationery		17,900	Add : Outstanding Tuition		
To Annual Social Gathering			Fees	6,750	1,90,500
Expenses		9,000	By Term Fees		17,500
To Sundry Expenses		5,000	By Government Grant		1,75,000
To Interest on Loan		30,000	By Admission Fees	15,300	
(Outstanding)			Less : Capitalisation	15,300	–
To Depreciation			By Sundry Receipts		650
On Library Books	25,000		By Excess of Expenditure		
On Furniture	15,000		over Income (Deficit)		55,850
Laboratory Equipments	10,000				
Buildings	15,000	65,000			
		4,39,500			4,39,500

Balance Sheet as on 31st March, 2019

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital Fund	2,49,550		Building	3,12,500	
Add : Capitalisation of			Less : Depreciation	15,000	2,97,500
Admission Fees	15,300		Furniture	55,000	
	2,64,850		Add : New Furniture		
Less : Excess of			Purchased	10,000	
Expenditure over				65,000	
Income (Deficit)	55,850	2,09,000	Less : Depreciation	15,000	50,000
Loan	2,50,000		Laboratory Equipment	62,500	
Add : Interest due on Loan	30,000	2,80,000	Add : New Equipment		
			Purchased	5,000	
				67,500	
			Less : Depreciation	10,000	57,500
			Library Books	57,750	
			Add : Purchased during		
			Current Year	25,000	
				82,750	
			Less : Depreciation	25,000	57,750
			Tuition Fees Outstanding		6,750
			Cash at Bank		17,500
			Cash in Hand		2,000
		4,89,000			4,89,000

Working Notes :

(1) Tuition fees outstanding ₹ 6,750 are first added to Tuition Fees on credit side of Income and Expenditure A/c and then such outstanding tuition fees are shown on the Assets side of Balance Sheet.

(2) Outstanding interest on Loan ₹ 30,000 is first debited to Income and Expenditure A/c and it is added to Loan on Liabilities side of Balance Sheet.

(3) Government grant (Revenue income) ₹ 1,75,000 is recorded on the credit side of Income and Expenditure Account.

(4) Debit balance of Income and Expenditure Account ₹ 55,850 indicates deficit. It is deducted from Capital fund on the Liabilities side of Balance Sheet.

SOLUTIONS OF TEXTUAL PROBLEMS

*** Q. 1. Calculation of stationery consumed during the year**

Balance Sheet as on 01 – 04 – 2018

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
			Stock of Stationery		400

Dr. Receipts and Payments Account for the year ending 31 – 03 – 2019 Cr.

Receipts	Amount (₹)	Amount (₹)	Payments	Amount (₹)	Amount (₹)
			By Stationery Purchased		6,300

Adjustments :

(1) ₹ 1,000 outstanding for stationery bill.

(2) Stock of Stationery as on 31 – 03 – 2019 was valued at ₹ 1,800.

With the above information, calculate the amount of Stationery consumed during the year and show its presentation in final Accounts of a concern.

Solution : **In the books of ....**

Dr. Income and Expenditure Account for the year ended 31st March, 2019 Cr.

Expenditure	Amount (₹)	Amount (₹)	Income	Amount (₹)	Amount (₹)
To Stationery Consumed during the Year					
Opening Stock	400				
Add : Stationery Purchased during the Year	6,300				
Add : Credit Purchase of Stationery (Outstanding bill)	1,000				
	7700				
Less : Closing Stock of Stationery	1800	5,900			

*** Q. 2. Presentation of Subscription only**

Balance Sheet as on 01 – 04 – 2018

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Subscription Received in Advance for 2018–19		20,000	Outstanding Subscription		
			2016–17	26,000	
			2017–18	35,000	61,000

Dr. **Receipts and Payments Account for the year ending 31 – 03 – 2019** **Cr.**

Receipts	Amount (₹)	Amount (₹)	Payments	Amount (₹)	Amount (₹)
To Subscriptions					
2016–17	23,000				
2017–18	30,000				
2018–19	4,10,000				
2019–20	21,000	4,84,000			

Adjustments :

Outstanding subscription for 2018–19 is ₹ 32,000.

With the above information, present the item Subscription in Income and Expenditure Account for the year ended 31 – 03 – 2019 and Balance Sheet as on the date.

Solution : **In the books of ....**

Dr. **Income and Expenditure Account for the year ended 31st March, 2019** **Cr.**

Expenditure	Amount (₹)	Amount (₹)	Income	Amount (₹)	Amount (₹)
			By Subscription	4,10,000	
			Add : Outstanding Subsciption for Current Year 2018–19	32,000	
				4,42,000	
			Add : Subscription of Current Year Received in Advance in the Previous Year 2017–18	20,000	4,62,000

Balance Sheet as on 31st March, 2019

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Subscription Received in Advance for the Year 2019–20		21,000	Outstanding Subscription for Add : Year 2018–19 (Current year)	32,000	
			Add : Year 2016–17 (26,000 – 23,000)	3,000	
			Add : Year 2017–18 (35,000 – 30,000)	5,000	40,000

Working Note :

Outstanding subs. given in the balance sheet as on 01 – 04 – 2018 are ₹ 26,000 (for 2016–17) and ₹ 35,000 (for 2017–18). Against that as shown in Receipt – Payment A/c ₹ 23,000 and ₹ 30,000 are received respectively. Means ₹ 3,000 and ₹ 5,000 are still outstanding which are known in the current year balance sheet.

*** Q. 3.**

Dr. **Receipts and Payments Account for the year ending 31 – 03 – 2018** **Cr.**

Receipts	Amount (₹)	Amount (₹)	Payments	Amount (₹)	Amount (₹)
To Subscriptions					
2016–17	2,000				
2017–18	60,000				
2018–19	4,500	66,500			

Adjustments :

Subscription outstanding for the year 2017–18 is ₹ 6,000.

During previous year subscription received in advance for 2017–18 is ₹ 2,000.

Outstanding subscription of 2016–17 is ₹ 2,500.

With the help of above information present the item Subscription in Income and Expenditure Account for the year ending 31 – 03 – 2018 and Balance Sheet as on that date.

Solution : **In the books of ....**

Dr. **Income and Expenditure Account for the year ended 31st March, 2018** **Cr.**

Expenditure	Amount (₹)	Amount (₹)	Income	Amount (₹)	Amount (₹)
			By Subscription (Year 2017–18)	60,000	
			Add : Outstanding Subscription of Current Year 2017–18	6,000	
			Add : Subscription Received in Advance of Current Year in Previous Year	2,000	68,000

Balance Sheet as on 31st March, 2018

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Subscription Received in Advance in the Current Year for the Year 2018–19		4,500	Outstanding Subscription for Current Year (2017–18)		6,000
			Outstanding Subscription for the Year 2016–17 (2,500 – 2,000)		500

*** Q. 4. Preparation of Income and Expenditure Account only**

Following is the Receipts and Payments Account of "Satara Sports Club" Satara. Prepare Income and Expenditure Account for the year ending 31 – 03 – 2019.

Dr. Receipts and Payments Account for the year ending 31 – 03 – 2019 Cr.

Receipts	Amount (₹)	Amount (₹)	Payments	Amount (₹)	Amount (₹)
To Balance b/d			By Salaries		5,000
Cash in Hand	4,500		By Rent (Including ₹ 2,000		5,000
Cash at Bank	12,000	16,500	for 2017–18)		
To Subscription			By Electricity Charges		1,450
2017–18	4,000		By Fixed Deposit		60,000
2018–19	44,500		By Printing and Stationery		750
2019–20	3,500	52,000	By General Expenses		5,500
To Entrance Fees		8,000	(Including ₹ 500 paid for		
To Donation for Building			next year)		
Fund		70,000	By Sports Material		
To Interest		600	Purchased		40,000
To Sale of Furniture		4,500	By Balance c/d		
(Book value ₹ 8,000)			Cash in Hand	8,900	
			Cash at Bank	25,000	33,900
		1,51,600			1,51,600

Adjustments :

(1) Outstanding subscription for current year is ₹ 4,500.

(2) Outstanding rent for current year amounted to ₹ 1,000.

(3) Entrance fees are to be treated as Revenue Income.

(4) Stock of sports material as on 01 – 04 – 2018 ₹ 6,000 and on 31 – 03 – 2019 ₹ 14,000.

* Q. 4. Preparation of Income and Expenditure Account only

Following is the Receipts and Payments Account of "Satara Sports Club" Satara. Prepare Income and Expenditure Account for the year ending 31 – 03 – 2019.

Dr. **Receipts and Payments Account for the year ending 31 – 03 – 2019** **Cr.**

Receipts	Amount (₹)	Amount (₹)	Payments	Amount (₹)	Amount (₹)
To Balance b/d			By Salaries		5,000
Cash in Hand	4,500		By Rent (Including ₹ 2,000		5,000
Cash at Bank	12,000	16,500	for 2017–18)		
To Subscription			By Electricity Charges		1,450
2017–18	4,000		By Fixed Deposit		60,000
2018–19	44,500		By Printing and Stationery		750
2019–20	3,500	52,000	By General Expenses		5,500
To Entrance Fees		8,000	(Including ₹ 500 paid for		
To Donation for Building			next year)		
Fund		70,000	By Sports Material		
To Interest		600	Purchased		40,000
To Sale of Furniture		4,500	By Balance c/d		
(Book value ₹ 8,000)			Cash in Hand	8,900	
			Cash at Bank	25,000	33,900
		1,51,600			1,51,600

Adjustments :

(1) Outstanding subscription for current year is ₹ 4,500.
(2) Outstanding rent for current year amounted to ₹ 1,000.
(3) Entrance fees are to be treated as Revenue Income.
(4) Stock of sports material as on 01 – 04 – 2018 ₹ 6,000 and on 31 – 03 – 2019 ₹ 14,000.

Solution : **In the books of 'Satara Sports Club' Satara**

Dr. **Income and Expenditure Account for the year ended on 31st March, 2019** **Cr.**

Expenditure	Amount (₹)	Amount (₹)	Income	Amount (₹)	Amount (₹)
To Salaries		5,000	By Subscription Received		
To Rent	5,000		for 2018–19	44,500	
Add : Outstanding Rent of			Add : Outstanding		
Current Year	1,000		Subscription for		
Less : Rent Received for			Current Year	4,500	49,000
the Year 2017–18	2,000	4,000	By Entrance Fees		8,000
To Electricity Charges		1,450	By Interest		600
To Printing and Stationery		750			
To General Expense	5,500				
Less : Amount Paid for					
Next Year	500	5,000			
To Sports Material					
Consumed					
Opening Stock	6,000				
Add : Sports Material					
Purchased in Current					
Year	40,000				
	46,000				
Less : Closing Stock of					
Sports Material	14,000	32,000			
To Loss due to Sale of					
Furniture (8,000 – 4,500)		3,500			
To Surplus (Excess of					
income over expenditure)		5,900			
		57,600			57,600

Working Notes :

(1) Entrance fees is to be treated as Revenue income. Therefore entire amount is recorded on income side.

(2) Since selling price of Furniture ₹ 4,500 is lower than its cost price of ₹ 8,000, there is Loss on sale of furniture.

It is calculated as follows :

Loss on sale of furniture = Book value (cost) – Selling price

= 8,000 – 4,500

= ₹ 3,500

It is debited to Income and Expenditure A/c.

*** Q. 5. "Bhartiya Kala Kendra", Solapur gives you the following information for the year ended on 31 – 03 – 2018. Prepare Income and Expenditure Account for the year ending 31 – 03 – 2018.**

Dr. Receipts and Payments Account for the year ending on 31 – 03 – 2018 Cr.

Receipts	Amount (₹)	Payments	Amount (₹)
To Balance b/d		By Stationery	600
Cash in Hand	200	By Furniture Purchased	7,000
Cash at Bank	12,500	By Investments in Govt. Securities	14,000
To Locker Rent	400	By Expenses of Drama	3,000
To Entrance Fees	2,900	By Postage	450
To Sale of Old Newspapers	250	By Magazine and Newspaper	600
To Receipts from Drama	9,000	By Salaries	4,400
To Legacies	12,000	By Balance c/d	
To Interest of Govt. Securities	400	Cash in Hand	700
To Miscellaneous Receipts	400	Cash at Bank	7,300
	38,050		38,050

Additional Information :

(1) Legacies are to be capitalized.

(2) Outstanding salary ₹ 200.

(3) 50 % of Entrance fees are to be capitalised.

Solution : In the books of Bhartiya Kala Kendra, Solapur

Dr. Income and Expenditure Account for the year ended 31st March, 2018 Cr.

Expenditure	Amount (₹)	Amount (₹)	Income	Amount (₹)	Amount (₹)
To Stationery		600	By Locker Rent		400
To Expenses of Drama		3,000	By Entrance Fees	2,900	
To Postage		450	Less : 50 % Capitalised	1,450	1,450
To Magazine and Newspaper		600	By Sale of Old Newspapers		250
To Salaries	4,400		By Receipts from Drama		9,000
Add : Outstanding Salaries	200	4,600	By Interest on Govt. Securities		400
To Surplus (Excess of income over expenditure)		2,650	By Miscellaneous Receipts		400
		11,900			11,900

*** Q. 6. Accounts of a Charitable Hospital**

From the following particulars relating to "Radha-Krishna Charitable Hospital", Pune. Prepare Income and Expenditure Account for the year ending 31 – 03 – 2020 and Balance Sheet as on that date.

Dr. **Receipts and payments Account for the year ending on 31 – 03 – 2020** **Cr.**

Receipts	Amount (₹)	Payments		Amount (₹)
To Balance b/d		By Medicines Purchased		41,000
Cash	8,230	By General Expenses		1,050
To Subscriptions	52,000	By Salaries		23,500
To Donations (General)	17,500	By Stationery		2,000
To Interest on Investments	10,000	By Expenses on Charity Show		550
To Proceeds from Charity Show	8,530	By Surgery and Dispensary Exp.		4,200
		By Equipments		10,000
		By Balance c/d		
		Cash in Hand	960	
		Cash at Bank	13,000	13,960
	96,260			96,260

Additional Information :

Particulars	01 – 04 – 2019 (₹)	31 – 03 – 2020 (₹)
1. Subscription Due	310	350
2. Subscription Received in Advance	600	150
3. Stock of Medicines	8,000	11,000
4. Estimated Value of Equipments	15,000	?
5. Buildings	40,000	?
6. Capital Fund	1,70,940	?
7. 10 % Investment	1,00,000	?

Provide Depreciation on Equipments ₹ 1,900 and on Building ₹ 1,500.

Solution : **In the books of Radha-Krishna Charitable Hospital, Pune**

Dr. **Income and Expenditure Account for the year ended 31st March, 2020** **Cr.**

Expenditure	Amount (₹)	Amount (₹)	Income	Amount (₹)	Amount (₹)
To Medicines Consumed			By Subscriptions	52,000	
Opening Stock	8,000		Add : Outstanding of		
Add : Purchases	41,000		Current Year	350	
	49,000		Add : Received in Advance		
Less : Closing Stock	11,000	38,000	in Previous Year	600	
To General Expenses		1,050		52,950	
To Salaries		23,500	Less : Received in Current		
To Stationery		2,000	Year of the Previous		
To Expenses on charity			Year	150	
show		550	Less : Subscription due of		
To Surgery and Dispensary			Previous Year	310	52,490
Expense		4,200	By Donations (General)		17,500
To Depreciation			By Interest on Investments		10,000
Equipments	1,900		By Proceeds from Charity		
Building	1,500	3,400	Show		8,530
To Surplus		15,820			
(Excess of income over					
expenditure)					
		88,520			88,520

Balance Sheet as on 31st March, 2020

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital Fund	1,70,940		Outstanding Subscription		350
Add : Surplus	15,820	1,86,760	Closing Stock of Medicines		11,000
Subscription Received in			Equipments opening Balance	15,000	
Advance		150	Add : Purchases	10,000	
				25,000	
			Less : Depreciation	1,900	23,100
			Buildings	40,000	
			Less : Depreciation	1,500	38,500
			10 % Investments		1,00,000
			Cash in Hand		960
			Cash at Bank		13,000
		1,86,910			1,86,910

Working Notes :

(1) To find medicines consumed, here in the opening stock, purchases is added and closing stock of medicine is subtracted.

(2) For equipments, in opening balance, add equipments purchased during the year and subtract depreciation to get closing balance of equipment.

(3) Interest ₹ 10,000 is received on 10 % investments means there is no outstanding interest.

*** Q. 7. From the following transactions of Receipts and Payments Account of "Pavan-putra Hanuman Vyayamshala", Parbhani and the adjustments given, you are required to prepare Income and Expenditure Account and Balance Sheet as on 31st March, 2019.**

Dr. **Receipts and Payments Account for the year ending 31 – 03 – 2019** **Cr.**

Receipts		Amount (₹)	Payments		Amount (₹)
To Balance b/d			By Salaries		6,000
Cash in Hand		5,000	By Entertainment Expenses		2,480
To Subscriptions			By Sundry Expenses		1,300
2018–19	18,000		By Electricity Charges		1,200
2019–20	410	18,410	By Rent		700
To Donations		6,000	By Investment		15,000
To Receipts from Entertainment		5,400	By Printing and Stationery		800
To Interest		400	By Postage		3,200
To Entrance Fees		6,200	By Fixed Deposit		3,900
			By Balance c/d		
			Cash in Hand	830	
			Cash at Bank	6,000	6,830
		41,410			41,410

Adjustments :

(1) There are 500 members paying an annual subscription of ₹ 50 each.

(2) Outstanding salary was ₹ 1,200.

(3) The Assets on 01 – 04 – 2018 were as follows :
Building ₹ 50,000, Furniture ₹ 15,000

(4) Provide depreciation on Building and Furniture at 5 % and 10 % respectively.

(5) 50 % Entrance fees is to be capitalized.

(6) Interest on investment at 5 % p.a. has accured for 6 months.

(7) Capital fund ₹ 70,000 on 01 – 04 – 2018.

Solution : In the books of Pavan-putra Hanuman Vyayamshala, Parbhani

Dr. Income and Expenditure Account for the year ended on 31st March, 2019 **Cr.**

Expenditure	Amount (₹)	Amount (₹)	Income	Amount (₹)	Amount (₹)
To Salaries	6,000		By Subscription	18,000	
Add : Outstanding	1,200	7,200	Add : Outstanding		
To Entertainment Expenses		2,480	Subscription for		
To Sundry Expenses		1,300	Current Year	7,000	25,000
To Electricity Charges		1,200	By Donations		6,000
To Rent		700	By Receipts from		
To Printing and Stationery		800	Entertainment		5,400
To Postage		3,200	By Interest		400
To Depreciation			By Outstanding Interest on		
Building	2,500		Investments (6 Months)		375
Furniture	1,500	4,000	By Entrance Fees	6,200	
To Surplus		19,395	Less : 50 % capitalised	3,100	3,100
(Excess of income over					
expenditure)					
		40,275			40,275

Balance Sheet as on 31st March, 2019

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital Fund	70,000		Building	50,000	
Add : Surplus	19,395		Less : Depreciation	2,500	47,500
Add : 50 % Entrance Fees	3,100	92,495	Furniture	15,000	
Outstanding Salary		1,200	Less : Depreciation	1,500	13,500
Subscription Received in			Investments		15,000
Advance		410	Outstanding Interest on		
			Investments		375
			Fixed Deposit		3,900
			Cash in Hand		830
			Cash at Bank		6,000
			Outstanding Subscription of		
			Current Year		7,000
		94,105			94,105

Working Notes :

(1) Interest on investment is receivable for 6 months :

$$I = \frac{PRN}{100} = 15{,}000 \times \frac{5}{100} \times \frac{6}{12} = ₹\ 375 \text{ (outstanding interest on investment)}$$

(2) 50 % of entrance fees $\left(\text{i.e. } \frac{6200}{2} = ₹\ 3100\right)$ is to be capitalised means add it to capital fund.

(3) Total subscription of current year = 500 members × ₹ 50 = ₹ 25,000

But actual subscription received = ₹ 18,000

means difference (25,000 – 18,000) of ₹ 7,000 is outstanding subscription.

* Q. 8. Newly Started Art Cicrle

"Jeevan Jyoti Art Circle" a newly established concern has presented the following information :

Dr. Receipts and Payments Account for the year ending 31 – 03 – 2018 Cr.

Receipts	Amount (₹)	Amount (₹)	Payments	Amount (₹)	Amount (₹)
To Admission Fees		22,000	By Furniture		12,000
To Subscriptions		40,000	By Stationery		4,000
To Donations		18,000	By Office Rent		2,600
			By Newspapers & Periodicals		300
			By Telephone Expenses		560
			By Investments		23,000
			By Balance c/d		
			Cash in Hand	7,540	
			Cash at Bank	30,000	37,540
		80,000			80,000

Adjustments :

(1) Subscription outstanding for the year was ₹ 5,000.

(2) Depreciate Furniture @ 10 % p.a.

(3) Full amount of admission fees and 50 % donations are to be capitalized.

You are required to prepare Income and Expenditure Account for the year ending 31 – 03 – 2018 and Balance Sheet as on that date.

Solution : **In the books of Jeevan Jyoti Art Circle**

Dr. Income and Expenditure Account for the year ended 31st March, 2018 Cr.

Expenditure	Amount (₹)	Amount (₹)	Income	Amount (₹)	Amount (₹)
To Stationery		4,000	By Donations	18,000	
To Office Rent		2,600	Less : 50 % Capitalised	9,000	9,000
To Newspapers and Periodicals		300	By Subscription	40,000	
To Telephone Expenses		560	Add : Outstanding of Current Year	5,000	45,000
To Depreciation Furniture		1,200			
To Surplus (Excess of income over expenditure)		45,340			
		54,000			54,000

Balance Sheet as on 31st March, 2018

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital Fund	–		Furniture	12,000	
Add : Surplus	45,340		Less : Depreciation	1,200	10,800
Add : Admission Fees	22,000		Investments		23,000
(Capitalised)			Cash in Hand		7,540
Add : Donations	9,000	76,340	Cash at Bank		30,000
(50 % Capitalised)			Outstanding Subscription		5,000
		76,340			76,340

Working Notes :

Full amount of admission fees and 50 % of donations are added to surplus amount to get capital fund. (Opening balance of capital fund is not given.)

*** Q. 9. Given below is Receipts and Payments Account of "Vithai Mahila Mandal", Pandharpur for the year ending 31 – 03 – 2018. Prepare an Income and Expenditure Account for the year ended 31 – 03 – 2018 and Balance Sheet as on that date.**

Dr. Receipts and Payments Account for the year ending 31 – 03 – 2018 Cr.

Receipts	Amount (₹)	Amount (₹)	Payments	Amount (₹)	Amount (₹)
To Balance b/d			By Stationery		6,000
Cash in Hand	3,000		By Repairs to Furniture		950
Cash at Bank	20,000	23,000	By Rent		8,300
To Entrance Fees		3,500	By Salaries		15,000
To Subscription		19,000	By Miscellaneous Expenses		450
To Miscellaneous Receipts		850	By Balance c/d		
			Cash in Hand	1,650	
			Cash at Bank	14,000	15,650
		46,350			46,350

Adjustments :

(1) Capital fund on 01 – 04 – 2017 was ₹ 90,000.

(2) Outstanding subscription ₹ 4,000.

(3) Entrance fees are to be capitalized.

(4) Rent paid includes ₹ 800 paid for April, 2018.

(5) They have following Assets and Liabilities as on 01 – 04 – 2017
Furniture ₹ 9,000, Building ₹ 70,000 and Outstanding Expenses ₹ 12,000.

Solution :

In the books of Vithai Mahila Mandal, Pandharpur

Dr. **Income and Expenditure Account for the year ended 31st March, 2018** **Cr.**

Expenditure	Amount (₹)	Amount (₹)	Income	Amount (₹)	Amount (₹)
To Stationery		6,000	By Subscription	19,000	
To Repairs to Furniture		950	Add : Outstanding		
To Rent	8,300		Subscription	4,000	23,000
Less : Prepaid Rent	800	7,500	By Miscellaneous Receipts		850
To Salaries		15,000	By Deficit		6,050
To Miscellaneous Expense		450	(Excess of expenses over incomes)		
		29,900			29,900

Balance Sheet as on 31st March, 2018

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital Fund	90,000		Furniture		9,000
Add : Entrance Fees	3,500		Building		70,000
(Capitalised)			Outstanding Subscription		4,000
Less : Deficit	6,050	87,450	Cash in Hand		1,650
Outstanding Expenses		12,000	Cash at Bank		14,000
			Prepaid Rent		800
		99,450			99,450

Working Notes :

(1) Outstanding subscription of ₹ 4,000 is first added to subscription received on credit side of Income and Expenditure A/c and then it is shown on the Assets side of Balance Sheet.

(2) Entire amount of entrance fees ₹ 3,500 is added to capital fund.

(3) Prepaid ₹ 800 is first deducted from rent paid on the debit side of Income & Expenditure A/c and then shown on the Assets side of Balance Sheet.

(4) Outstanding expenses ₹ 12,000 is directly shown on the Liabilities side of Balance Sheet.

*** Q. 10. From the following Receipts and Payments Account "K.B.P. Engineering College", Nashik for the year ending on 31 – 03 – 2019 and additional information, prepare Income and Expenditure Account for the year ending 31 – 03 – 2019 and Balance Sheet as on that date.**

Dr. Receipts and Payments Account for the year ending 31 – 03 – 2019 Cr.

Receipts	Amount (₹)	Payments	Amount (₹)
To Balance b/d		By Salaries to Teaching Staff	11,70,000
Cash in Hand	18,000	By Electricity Charges	55,000
Cash at Bank	1,00,400	By Books	61,000
To Interest	55,000	By Furniture	51,000
To Subscriptions	28,300	By Stationery	21,850
To Life Membership Fees	25,000	By Fixed Deposit (31 – 03 – 2019)	8,50,000
To Donation	7,00,000	By Balance c/d	
To Tuition Fees	12,30,000	Cash in Hand	16,650
To Term Fees	2,00,800	Cash at Bank	2,00,000
To Sundry Receipts	8,000		
To Addmission Fees (Revenue)	60,000		
	24,25,500		24,25,500

Additional Information :

Particulars	01 – 04 – 2018 (₹)	31 – 03 – 2019 (₹)
Books	6,00,000	6,00,000
Furniture	3,19,000	3,00,000
Building Fund	10,00,000	?
Fixed Deposit	9,10,000	?
Capital Fund	9,47,400	?

(1) 50 % of donation are for Building fund and the balance is to be treated Revenue income.

(2) Outstanding subscription ₹ 5,300.

(3) Life membership fees are to capitalised.

Solution : **In the books of K.B.P. Engineering College, Nashik**

Dr. Income and Expenditure Account for the year ended on 31st March, 2019 Cr.

Expenditure	Amount (₹)	Amount (₹)	Income	Amount (₹)	Amount (₹)
To Salaries to Teaching Staff		11,70,000	By Interest		55,000
To Electricity Charges		55,000	By Subscription	28,300	
To Stationery		21,850	Add : Outstanding		
To Depreciation			Subscription	5,300	33,600
Furniture	70,000		By Donations	7,00,000	
Books	61,000	1,31,000	Less : 50 % for Building		
To Surplus		5,59,550	Fund	3,50,000	3,50,000
(Excess of income over			By Tuition Fees		12,30,000
expenditure)			By Term Fees		2,00,800
			By Sundry Receipts		8,000
			By Admission Fees		60,000
		19,37,400			19,37,400

Balance Sheet as on 31st March, 2019

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital Fund	9,47,400		Outstanding Subscription		5,300
Add : Surplus	5,59,550		Books	6,00,000	
Add : Life Membership			Add : Purchases	61,000	
Fees (Capitalised)	25,000	15,31,950		6,61,000	
Building Fund	10,00,000		Less : Depreciation	61,000	6,00,000
Add : 50 % of Donations	3,50,000	13,50,000	Furniture	3,19,000	
			Add : Purchase	51,000	
				3,70,000	
			Less : Depreciation	70,000	3,00,000
			Fixed Deposits (Old)		8,50,000
			Cash in Hand		16,650
			Cash in Bank		2,00,000
			Fixed Deposits (New)		9,10,000
		28,81,950			28,81,950

Working Notes :

(1) Life membership fees are to be capitalised, means add entire amount in capital fund.

(2) 50 % of Donations of ₹ 7,00,000 i.e., ₹ 3,50,000 is to be added to Building fund and remaining amount of donation i.e., ₹ 3,50,000 is credited to Income and Expenditure A/c.

(3) The depreciation on Fixed assets is calculated by using following formula :

Depreciation = Opening balance + Purchases – Closing value

∴ Depreciation on Books = 6,00,000 + 61,000 – 6,00,000 = 6,61,000 – 6,00,000
= ₹ 61,000

∴ Depreciation on Furniture = 3,19,000 + 51,000 – 3,00,000 = 3,70,000 – 3,00,000
= ₹ 70,000

(4) Fixed deposit : Opening balance given = ₹ 9,10,000
Fixed deposit (31 – 03 – 2019) = ₹ 8,50,000
(Newly purchased)
∴ Total fixed deposits = ₹ 17,50,000

(5) Admission Fees ₹ 60,000 is recorded on the credit side of Income and Expenditure A/c because it is taken as Revenue income.

*** Q. 11. Account of a School**

From the following Balance Sheet and Receipts and Payments Account of "New English School", Barshi, prepare Income and Expenditure Account for the year ending 31 – 03 – 2020 and a Balance Sheet as on that date.

Balance Sheet as on 01 – 04 – 2019

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital Fund	6,43,000	Cash in Hand	6,000
		Cash at Bank	10,000
		Building	4,50,000
		Furniture	72,000
		Library Books	45,000
		Computer Laboratory	60,000
	6,43,000		6,43,000

Dr. **Receipts and Payments Account for the year ending 31 – 03 – 2020** **Cr.**

Receipts	Amount (₹)	Amount (₹)	Payments	Amount (₹)	Amount (₹)
To Balance b/d			By Salary		90,000
Cash in Hand	6,000		By Library Books		14,000
Cash at Bank	10,000	16,000	By Office Rent		10,000
To Tuition Fees		90,000	By Printing and Stationery		22,000
To Term Fees		3,000	By Sundry Expenses		12,000
To Admission Fees		12,000	By Insurance		10,200
To Donation (Capital)		61,000	By Sports Expenses		8,000
To Interest Received		2,000	By Annual Gathering Exp.		9,000
To Government Grant (Revenue)		1,20,000	By Furniture		50,000
			By Repairs		15,000
To Sundry Receipts		11,000	By Balance c/d		
			Cash in Hand	4,800	
			Cash at Bank	70,000	74,800
		3,15,000			3,15,000

Additional Information :

(1) Outstanding salary of ₹ 9,000.

(2) Outstanding tuition fees ₹ 15,000.

(3) Depreciate library books by ₹ 9,000 and Furniture by ₹ 10,000.

Solution : In the books of New English School, Barshi

Dr. Income and Expenditure Account for the year ended 31st March, 2020 **Cr.**

Expenditure	Amount (₹)	Amount (₹)	Income	Amount (₹)	Amount (₹)
To Salary	90,000		By Tuition Fees	90,000	
Add : Outstanding Salary	9,000	99,000	Add : Outstanding tuition		
To Office Rent		10,000	Fees	15,000	1,05,000
To Printing and Stationery		22,000	By Term Fees		3,000
To Sundry Expenses		12,000	By Admission Fees		12,000
To Insurance		10,200	By Interest Received		2,000
To Sport Expenses		8,000	By Government Grant		1,20,000
To Annual Gathering Expenses		9,000	By Sundry Receipts		11,000
To Repairs		15,000			
To Depreciation					
Library Books	9,000				
Furniture	10,000	19,000			
To Surplus		48,800			
(Excess of income over					
expenditure)					
		2,53,000			2,53,000

Balance Sheet as on 31st March, 2020

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital Fund	6,43,000		Building		4,50,000
Add : Surplus	48,800		Furniture	72,000	
Add : Donation	61,000	7,52,800	Add : Purchases	50,000	
Outstanding Salary		9,000		1,22,000	
			Less : Depreciation	10,000	1,12,000
			Library Books	45,000	
			Add : Purchases	14,000	
				59,000	
			Less : Depreciation	9,000	50,000
			Computer Laboratory		60,000
			Cash in Hand		4,800
			Cash at Bank		70,000
			Outstanding Tuition Fees		15,000
		7,61,800			7,61,800

Working Notes :

(1) Donation (Capital) is added in Capital fund.

(2) Government Grant ₹ 1,20,000 is recorded on credit side of Income & Expenditure A/c because it is revenue income of the organisation.

(3) Outstanding tuition fees ₹ 15,000 and outstanding salary ₹ 9,000 are added to respective head of Account and then they are shown separately on the Assets side and Liabilities side of Balance Sheet respectively.

*** Q. 12. Account of a Library**

Following is the Receipts Payments Account of "Dhananjay Library", Mumbai for the year ending 31 – 03 – 2020.

Dr. Receipts and Payments Account for the year ending 31 – 03 – 2020 Cr.

Receipts	Amount (₹)	Payments	Amount (₹)
To Balance b/d	5,000	By Salaries	9,000
To Admission Fees	4,500	By Rent	7,500
To Subscriptions	20,000	By Investments	6,000
To Lecture Hall Hire Charges	4,200	By Stationery	1,350
To Miscellaneous Income	250	By Electricity Charges	850
To Interest on Investment	900	By Books	5,000
		By Outstanding Expenses (2018–19)	500
		By Balance c/d	4,650
	34,850		34,850

You are required to prepare an Income and Expenditure Account for the year ended 31 – 03 – 2020 and Balance Sheet as on that day.

The following information is also made available to you.

(1) On 31 – 03 – 2019, the library had the following Assets also; Books ₹ 50,000, Furniture ₹ 6,500 and Machinery of ₹ 30,000.

(2) Subscription received in advance amounted to ₹ 500.

(3) Outstanding salaries ₹ 1300 and for Rent ₹ 950.

(4) 50 % of the admission fees should be capitalized.

(5) Furniture to be depreciated at 10 % p.a.

(6) Library books were purchased on 1st April, 2019 charge depreciation at 10 % p.a.

(7) The Investments were purchased on 01 – 04 – 2019 and they carry interest at 20 % p.a.

Solution : **In the books of Dhananjay Library, Mumbai**

Dr. Income and Expenditure Account for the year ended 31st March, 2020 Cr.

Expenditure	Amount (₹)	Amount (₹)	Income	Amount (₹)	Amount (₹)
To Salaries	9,000		By Subscription	20,000	
Add : Outstanding Salary	1,300	10,300	Less : Subscription		
To Rent	7,500		Received in		
Add : Outstanding Rent	950	8,450	Advance	500	19,500
To Stationery		1,350	By Admission Fees	4,500	
To Electricity Charges		850	Less : 50 % Capitalised	2,250	2,250
To Depreciation			By Lecture Hall Hire Charges		4,200
Furniture	650		By Miscellaneous Income		250
Library Books	5,500	6,150	By Interest on Investments	900	
(5000 + 500)			Add : Outstanding Interest	300	1,200
To Surplus		300			
(Excess of Income over					
expenditure)					
		27,400			27,400

Balance Sheet as on 31st March, 2020

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital Fund	91,000		Machinery		30,000
Add : 50 % Admission	2,250		Books	50,000	
Fees (Capitalised)			Add : Purchases	5,000	
Add : Surplus	300	93,550		55,000	
Outstanding Salaries		1,300	Less : Depreciation	5,500	49,500
Outstanding Rent		950	(5000 + 500)		
Subscription Received in			Furniture	6,500	
Advance		500	Less : Depreciation	650	5,850
			Investments	6,000	
			Add : Outstanding Interest	300	6,300
			Cash in Hand		4,650
		96,300			96,300

Working Notes : (1) Opening Balance Sheet is prepared to find out opening capital fund :

Balance Sheet as on 31st March, 2019

Liabilities	Amount (₹)	Assets	Amount (₹)
Outstanding Expenses	500	Books	50,000
Capital Fund	91,000	Furniture	6,500
(Balancing figure)		Machinery	30,000
		Cash in Hand	5,000
		(Op. bal. of Receipt – Payment A/c)	
	91,500		91,500

(2) Outstanding expenses of previous year, paid in current year so no entry for outstanding expenses (2018–19)

(3) Interest on Investment @ 20 % on ₹ 6,000 = ₹ 1,200
Interest on Investment received = ₹ 900
Outstanding interest on investment = ₹ 300

(4) Depreciation on library books at 10 % p.a.
On opening balance of ₹ 50,000 (for whole year) = ₹ 5,000
On purchases on 01 – 04 – 2019 (for whole year) = ₹ 500
Total Depreciation = ₹ 5,500

(5) Subscriptions received in advance ₹ 500 is deducted from subscription received on credit side of Income and Expenditure A/c and then subscription received in advance is shown separately on the Liabilities side of Balance Sheet.

(6) Outstanding salaries and outstanding rent are added to respective head of Account on the debit side of Income & Expenditure Account and both the outstanding items are recorded on the Liabilities side of Balance Sheet.

* Q. 13. Outstanding Expenses and Prepaid Expenses

From the following information supplied to you, prepare Income and Expenditure Account for the year ending 31 – 03 – 2020 and Balance Sheet as on that date for "Morya Sports Club", Thane.

Balance Sheet as on 01 – 04 – 2019

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital Fund	64,500	Machinery	69,000
Bank Overdraft	38,000	Outstanding Subscriptions	8,000
Outstanding Salary	4,000	Prepaid Insurance Premium	2,000
		Furniture	15,000
		Cash in Hand	12,000
		Outstanding Locker's Rent	500
	1,06,500		1,06,500

Dr. Receipts and Payments Account for the year ended on 31 – 03 – 2020 Cr.

Receipts	Amount (₹)	Payments	Amount (₹)
To Balance b/d	12,000	By Balance b/d (Bank Overdraft)	38,000
To Subscription	1,05,000	By Salary	17,500
To Entrance Fees (Capitalized)	9,300	By Insurance Premium	11,000
To Locker Rent	1,500	By Interest	1,400
To Donations (Capitalized)	800	By Refreshment Expenses	4,200
		By Furniture	30,000
		By Balance c/d	
		Cash in Hand	6,500
		Cash at Bank	20,000
	1,28,600		1,28,600

Adjustments :

(1) Subscription received includes ₹ 3,000 for 2018–19 and outstanding subscription for 2019–20 was ₹ 14,000.

(2) On 31 – 03 – 2020, Prepaid insurance premium was ₹ 2,500.

(3) Depreciate Furniture by ₹ 3,000.

(4) Locker rent outstanding for 2019–20 is ₹ 400.

Solution :

In the books of 'Morya Sports Club' Thane

Income and Expenditure Account for the year ended 31st March, 2020

Dr. **Cr.**

Expenditure	Amount (₹)	Amount (₹)	Income	Amount (₹)	Amount (₹)
To Salary	17,500		By Subscription	1,05,000	
Less : Outstanding salary			Add : Outstanding		
of 2018–19	4,000	13,500	Subscription for		
To Insurance Premium	11,000		Current Year	14,000	
Less : Prepared Insurance				1,19,000	
Premium	2,500		Less : Subscription		
	8,500		Received of		
Add : Prepaid Insurance			2018–19	3,000	1,16,000
premium of current			By Locker Rent	1,500	
year Paid in previous			Add : Outstanding Locker		
year	2,000	10,500	Rent	400	
To Depreciation				1,900	
Furniture		3,000	Less : Outstanding Locker		
To Interest		1,400	Rent of Previous		
To Refreshment Expenses		4,200	Year	500	1,400
To Surplus		84,800			
(Excess of income over					
Expenditure)					
		1,17,400			1,17,400

Balance Sheet as on 31st March, 2020

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital Fund	64,500		Machinery		69,000
Add : Surplus	84,800		Outstanding Subscription		5,000
Add : Entrance fees	9,300		(2018–19)		
(Capitalised)			(8,000 – 3,000)		
Add : Donations	800	1,59,400	Outstanding Subscription		14,000
(Capitalised)			(2019–20)		
			Prepaid Insurance Premium		2,500
			Furniture	15,000	
			Add : Purchases	30,000	
				45,000	
			Less : Depreciation	3,000	42,000
			Outstanding Locker Rent		400
			(2019–20)		
			Cash in Hand		6,500
			Cash at Bank		20,000
		1,59,400			1,59,400

Working Notes :

(1) Outstanding subscription (2018–19) ₹ 8,000 given in b/s against that ₹ 3,000 received in 2019–20. Means still receivable subscription = ₹ 5,000 (8,000 – 3,000).

(2) Prepaid insurance premium (2018–19) ₹ 2,000 is for current year. Therefore, in current year's insurance premium, ₹ 2,000 is to be added and then subtract current year's prepaid insurance premium.

(3) Outstanding salary of (2018–19), ₹ 4,000 of previous year is to be subtracted from current year's salary.

(4) Total amount of donations and entrance fees are to be capitalised so add entire amount of both the items to Capital fund.

(5) Outstanding locker's rent (2018–19) ₹ 500 is given in Balance Sheet. It is to be substrcted from current year's locker's rent and then add current year's outstanding locker rent.

*** Q. 14. Charitable Hospital**

Following information has been provided by "Vivekanand Charitable Hospital", Latur. You are required to prepare Income and Expenditure Account for the year ending 31 – 03 – 2019 and Balance Sheet as on that date.

Balance Sheet as on 01 – 04 – 2018

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital Fund	11,00,000	Building	10,50,000
Bank Loan	6,50,000	Ambulance	4,00,000
Outstanding Bill for Drugs	50,000	Stock of Drugs	42,000
		Hospital Equipments	3,04,000
		Cash in Hand	4,000
	18,00,000		18,00,000

Dr. Receipts and Payments Account for the year ended on 31 – 03 – 2019 Cr.

Receipts	Amount (₹)	Payments	Amount (₹)
To Balance b/d	4,000	By Purchase of Drugs (Includes ₹ 40,000 for 2017–18)	2,00,000
To Subscription	2,22,000	By Salary to Staff	85,000
To Life Membership Fees	30,000	By Honorarium to Doctors	4,00,000
To Hospital Receipts (Revenue)	5,10,400	By Repairs and Maintenance	18,000
		By Furniture	45,000
		By General Expenses	16,000
		By Balance c/d	2,400
	7,66,400		7,66,400

Adjustments :

(1) On 31 – 03 – 2019 stock of drugs was valued at ₹ 22,000.

(2) Depreciation on Building at 5 % p.a. and on Ambulance ₹ 30,000.

(3) Life membership fees are to be capitalized.

Solution : **In the books of Vivekanand Charitable Hospital, Latur**

Dr. **Income and Expenditure Account for the year ended 31st March, 2019** **Cr.**

Expenditure	Amount (₹)	Amount (₹)	Income	Amount (₹)	Amount (₹)
To Salary to Staff		85,000	By Subscription		2,22,000
To Honorarium to Doctors		4,00,000	By Hospital Receipts		5,10,400
To Repairs and Maintenance		18,000	By Deficit		49,100
To General Expenses		16,000	(Excess of expenditure		
To Depreciation			over income)		
Building	52,500				
Ambulance	30,000	82,500			
To Drugs Consumed					
Opening Stock	42,000				
Add : Purchases	1,60,000				
(2,00,000 – 40,000)					
	2,02,000				
Less : Closing stock	22,000	1,80,000			
		7,81,500			7,81,500

Balance Sheet as on 31st March, 2019

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital Fund	11,00,000		Building	10,50,000	
Add : Life Membership			Less : Depreciation	52,500	9,97,500
Fees (Capitalised)	30,000		Ambulance	4,00,000	
	11,30,000		Less : Depreciation	30,000	3,70,000
Less : Deficit	49,100	10,80,900	Hospital Equipments		3,04,000
Outstanding Bill for Drugs		10,000	Closing stock of Drugs		22,000
(50,000 – 40,000)			Furniture		45,000
Bank Loan		6,50,000	Cash in Hand		2,400
		17,40,900			17,40,900

Working Notes :

(1) Purchase of drugs ₹ 2,00,000 includes ₹ 40,000 of 2017–18 and in the Balance Sheet of 2017–18, outstanding bill of drugs is ₹ 50,000 given. So, ₹ 10,000 is still outstanding.

(2) Consumption of drugs :

	₹
Opening stock (2017–18)	42,000
Add : Purchase of drugs	1,60,000
	2,02,000
Less : Closing stock of drugs	22,000
Consumption of drugs	1,80,000

PROBLEMS FOR PRACTICE

Q. 1. Following is the Receipts and Payments Account of Pavan Cricket Club, Patan :

Dr. **Receipts and Payments Account for the year ended 31st March, 2019** **Cr.**

Receipts	Amount (₹)	Payments	Amount (₹)
To Balance b/d		By Salaries	1,300
Cash at Bank	1,040	By Entertainment Expenses	645
To Subscriptions		By Electricity Charges	234
2017–18	85	By General Expenses	350
2018–19	4,000	By Rent and Taxes	120
2019–20	103	By Investments	3,000
To Donations	1,200	By Printing and Stationery	241
To Entertainment Receipts	876	By Expenses of 2017–18	600
To Interest	81	By Fixed Deposit	1,000
To Entrance Fees	1,000	By Balance c/d	
		Cash at Bank	895
	8,385		8,385

Adjustments :

(1) Club had 450 members paying an annual subscription of ₹ 10 each.

(2) ₹ 20 is still in arrears towards subscription for the year 2017–18.

(3) Carry forward ₹ 20 for rent paid in advance.

(4) Outstanding salary ₹ 200.

(5) Land and building ₹ 15,000 and Furniture ₹ 1,150 is standing in the books on 1st April, 2018 on which depreciation at 5 % and 20 % is to be written off respectively.

(6) Capital fund on 1 – 4 – 2018 was ₹ 16,695.

(7) 50 % of the entrance fees and full donation are to be capitalised.

From the above Receipts and Payments A/c and adjustments, you are required to prepare : (1) Income and Expenditure A/c for the year ended 31st March, 2019 and (2) Balance Sheet as on that date.

[**Ans.** (1) Surplus = ₹ 1,907 (2) Capital fund at the end = ₹ 20,302 (3) Balance Sheet Total = ₹ 20,605.]

[**Hints :**

(1) Subscriptions outstanding for current year 2018 – 19 is calculated as follows :

Outstanding subscriptions = Total subscriptions due – Subscriptions received

= (450 members × ₹ 10 per member) – 4,000 = 4,500 – 4,000 = ₹ 500.

(2) Subscriptions still in arrears for the previous year 2017 – 18 amounted to ₹ 20 are shown on the Assets side of the Balance Sheet as it constitutes assets of the club.

(3) Subscriptions for 2019 – 20 amounted to ₹ 103 received in advance in the year 2018–19 are shown on the Liabilities side of the Balance Sheet as it constitutes liability of the club.

(4) 50 % of the entrance fees and full amount of donation are deducted from respective accounts on the credit side of the Income and Expenditure A/c and then amount of both the items are added to capital fund on the Liabilities side of the Balance Sheet.

(5) Prepaid rent of ₹ 20 is deducted from rent and rates on the debit side of Income and Expenditure A/c and then it is shown on the Assets side of the Balance Sheet separately.]

Q. 2. From the following Receipts and Payments Account of Rajpath Sports Club for the year ending 31st March, 2019, you are required to prepare Income and Expenditure Account for the year ending 31st March, 2019 and Balance Sheet as on that date.

Dr. Receipts and Payments Account for the year ended 31st March, 2019 Cr.

Receipts	Amount (₹)	Payments	Amount (₹)
To Balance c/d (1 – 4 – 18)		By Salaries	40,000
Cash in Hand	15,000	By Wages	40,000
Cash at Bank	2,15,000	By Postage and Telegram	15,000
To Subscriptions	1,25,000	By Printing and Stationery	25,000
To Donations	2,25,000	By Hire of Ground	15,000
To Entrance Fees	1,25,000	By Sports Materials	2,00,000
To Interest	15,000	(Purchased on 1 – 1 – 19)	
To Miscellaneous Receipts	15,000	By Insurance	50,000
		By Balance b/d (31 – 3 – 19)	
		Cash in Hand	10,000
		Cash at Bank	3,40,000
	7,35,000		7,35,000

Additional Information :

(1) Subscriptions include ₹ 2,000 received for the year 2017–18 and subscriptions of ₹ 5,000 are due for current year but not received yet.

(2) Assets as on 1st April, 2018 were as follows :

(a) Building : ₹ 3,00,000; (b) Sports materials : ₹ 2,50,000; (c) Investments : ₹ 1,50,000; (d) Furniture : ₹ 1,50,000

(3) Provide depreciation on Building, Sports material and Furniture at 5 % p.a.

(4) Capitalise 50% of donations and entrance fees.

(5) Insurance of ₹ 5,000 is paid in advance.

(6) Salaries are outstanding at ₹ 5,000 and Interest ₹ 5,000 is due but not received.

(7) Capital fund was ₹ 10,82,000 as on 1 – 4 – 2018.

[**Ans.** (1) Surplus = ₹ 1,15,500 (2) Capital fund at the end : ₹ 13,72,500 (3) Balance Sheet Total = ₹ 13,77,500.]

[**Hints :**

(1) Subscriptions in respect to previous year 2017–18 of ₹ 2,000 are to be deducted from subscriptions on credit side of Income and Expenditure Account.

(2) Subscriptions outstanding for 2018–19 (current year) of ₹ 5,000 are first to be added to subscription on credit side of Income and Expenditure A/c and then it is to be shown on the Assets side of Balance Sheet.

(3) Depreciation on sports materials is calculated as follows :

(i) On opening balance of ₹ 2,50,000 a 5 % p.a. for 1 year

$= 2,50,000 \times 1 \times \frac{5}{100} =$ ₹ 12,500.

(ii) On additions made to sports materials of ₹ 2,00,000 a 5 % for 3 months

(i.e., from 1–01–19 to 31–03–19) $= 2,00,000 \times \frac{3}{12} \times \frac{5}{100} =$ ₹ 2,500.

Total depreciation on sports material = 12,500 + 2,500 = ₹ 15,000.

(4) 50% on Donations and Entrance fees of ₹ 1,12,500 and ₹ 62,500 respectively are to be deducted from respective head of account on credit side of Income and Expenditure A/c and then they are to be added to Capital Fund on Liabilities side of Balance Sheet.]

Q. 3. Following is the summary of Receipts and Payments of Jay Vyayam Shala, for the year ending on 31-03-2019.

Dr. Receipts and Payments Account for the year ended 31st March, 2019 Cr.

Receipts	Amount (₹)	Payments	Amount (₹)
To Balance b/d	41,600	By Salary	55,000
To Subscriptions		By Lighting	10,000
2017 – 18	4,120	By General Expenses	15,360
2018 – 19	1,60,000	By Entertainment Expenses	25,800
To Donation for Building	50,000	By Taxes Paid	5,000
To Receipts from Entertainment	36,440	By Printing and Stationery	9,440
To Interest	3,240	By Expenses Paid of 2017 – 18	24,000
To Entrance Fees	45,000	By Investment	1,20,000
		By Fixed Deposit with Bank	40,000
		By Balance c/d	35,800
	3,40,400		3,40,400

Adjustments :

(1) Jay Vyayam Shala has 4500 members paying annual subscription of ₹ 40 each.

(2) Provide for outstanding salary ₹ 5,000.

(3) On 1 – 4 – 2018 the assets stood as under : (a) Land and Building : ₹ 60,000 (b) Furniture : ₹ 46,000. Depreciate the above assets at 10 % p.a.

(4) Interest on Investment ₹ 2,000 is not received.

(5) Capital fund was ₹ 1,27,720 on 1 – 4 – 2018.

(6) 50 % of the Entrance fees is to be capitalised.

Prepare : Income and Expenditure Account for the year ended 31st March, 2019 and Balance Sheet as on that date.

[**Ans.** (1) Surplus = ₹ 1,07,980 (2) Capital fund at the end : ₹ 2,58,200 (3) Balance Sheet Total = ₹ 3,13,200.]

[**Hints :**

(1) Expenses paid of the previous accounting year 2017–18 amounted to ₹ 24,000 will not appear in Income and Expenditure Account as it is related to previous year i.e., 2017–18 though it is paid in current accounting year i.e., 2018–19.

(2) 50 % of Entrance fees amounted to ₹ 22,500 is to be deducted from Entrance fees on credit side of Income and Expenditure Account and then it is to be added to capital fund in the Balance Sheet on Liabilities side.

(3) Outstanding subscriptions due for current year i.e., 2018–19 are calculated as follows :

Outstanding subscriptions = Subscriptions due from 4,500 members – Subscription actually received

= 4,500 × 40 – 1,60,000

= 1,80,000 – 1,60,000 = ₹ 20,000.

They are first added to subscription on credit side of Income and Expenditure Account and then they are shown separately on the Assets side of the Balance Sheet.

(4) Interest on investments of ₹ 2,000 not yet received is to be credited to Income and Expenditure Account and then to be added to Investments on the Assets side of Balance Sheet.

(5) Outstanding salaries of ₹ 5,000 are to be added to salaries on debit side of Income and Expenditure Account and then they are to be shown separately on the Liabilities side of Balance Sheet.

(6) Closing balance of Receipts and Payments Account of ₹ 35,800 is to be shown on the Assets side of Balance Sheet.]

Q. 4. From the following Receipts and Payments Account of A.E.S. College of Commerce, and additional information, prepare Income and Expenditure Account for the year ending 31st March, 2019 and Balance Sheet as on that date.

Dr. **Receipts and Payments Account for the year ended 31st March, 2019** **Cr.**

Receipts	Amount (₹)	Payments	Amount (₹)
To Balance b/d		By Salaries	67,000
Cash in Hand	7,950	By Electricity Charges	26,200
Cash at Bank	50,800	By Books	41,300
To Life Membership Fees	20,500	By Furniture	45,000
To Donations	1,00,000	By Stationery	18,300
To Tuition Fees	1,30,000	By Fixed Deposits	2,00,000
To Term Fees	1,00,000	By Balance c/d	
To Admission Fees	40,000	Cash in Hand	1,450
		Cash at Bank	50,000
	4,49,250		4,49,250

Additional Information :

(1)

Particulars	01 – 04 – 2018 Amount (₹)	31 – 03 – 2019 Amount (₹)
Furniture	40,000	75,000
Building Fund	1,50,000	—
Fixed Deposits	1,60,000	—
Capital Fund	1,20,750	—

(2) 50% of donations are received for building fund.

(3) Life membership fees are to be capitalised.

(4) Tuition fees includes ₹ 12,000 received for the last year.

(5) Outstanding tuition fees for the current year amounted to ₹ 4,200.

[**Ans.** (1) Surplus = ₹ 1,90,700. (2) Capital fund at the end = ₹ 3,31,950. (3) Balance Sheet Total = ₹ 5,31,950.]

[**Hints :**

(1) Depreciation on Furniture = Opening balance + Purchases – Closing balance

= 40,000 + 45,000 – 75,000 = 85,000 – 75,000 = ₹ 10,000.

(2) Tuition fees ₹ 12,000 received for last year is to be deducted from tuition fees on the credit side of Income and Expenditure A/c. Then outstanding tuition fees ₹ 4,200 for the current year is to be added to tuition fees and the amount so added is to be again shown on the Assets side of Balance Sheet under title 'Tuition Fees Receivable'.]

Q. 5. From the following information of Shreyas Club, prepare Income and Expenditure account and the Balance Sheet as on 31st March, 2019 :

Dr. Receipts and Payments Account for the year ended 31st March, 2019 Cr.

Receipts	Amount (₹)	Payments	Amount (₹)
To Opening Cash Balance	8,000	By Annual Function Expenses	10,000
To Donation	20,000	By Expenses of Poet Gathering	14,000
To Government Grant	20,000	By President's Felicitation Expenses	24,000
To Subscriptions Received	66,000	By Purchase of Furniture (1 – 04 – 2018)	20,000
To Contribution to President's Felicitation Fund	44,000	By Stationery Expenses	1,500
		By Postage and Telegram	1,500
To Income from Poet Gathering	24,000	By Salary	30,000
To Entrance Fees	10,000	By Subscription of Periodicals	6,000
To Sale of Scrap	1,000	By Building Construction Expenses	12,000
To Interest on Investment	5,000	By Purchase of 15% Investments (1 – 08 – 2018)	30,000
		By Purchase of Books (1 – 04 – 2018)	40,000
		By Miscellaneous Expenses	2,000
		By Electricity Expenses	3,000
		By Closing Cash Balance	4,000
	1,98,000		1,98,000

Balance on 1 – 4 – 2018 : Books ₹ 40,000; Outstanding salary ₹ 2,000; Outstanding subscriptions ₹ 4,000; Building ₹ 80,000; 15 % Investments ₹ 30,000.

Further Additional Information :

(1) Depreciate building, furniture and books @ 10 %.

(2) Salary ₹ 6,000 is outstanding.

(3) Included in subscriptions is ₹ 2,000 received for 2019–20.

(4) Current year's outstanding subscription is ₹ 3,000.

(5) Half of Entrance fees and full amount of donation are to be capitalised. Capital fund as on 1st April 2018 was ₹ 1,60,000.

[**Ans.** (1) Surplus = ₹ 18,500 (2) Capital fund at the end = ₹ 2,03,500
(3) Balance Sheet Total = ₹ 2,31,500.]

[**Hints :**

(1) Contribution to President's Felicitation Fund is to be shown on the Liabilities side of Balance Sheet and from such fund President's Felicitation Expenses are to be deducted.

(2) Interest on Investment =

	₹
(i) On opening balance of ₹ 30,000 @ 15 % for 1 year	4,500
(ii) On Investmetns purchased on 1 – 08 – 2018 of ₹ 30,000 for 8 months $\left(30{,}000 \times \frac{8}{12} \times \frac{15}{100}\right)$	3,000
	7,500
(–) Interest on Investment received during the year 2018 – 19	5,000
Interest on Investment due but not received	2,500

Add interest on Investment due ₹ 2,500 to interest received ₹ 5,000 on credit side of Income and Expenditure A/c and show the same (₹ 2,500) on the Assets side of Balance Sheet as outstanding interest on Investment.]

Q. 6. The following is the Receipts and Payments Account of the Matunga Club :

Dr. **Receipts and Payments Account for 2018–19** **Cr.**

Receipts	Amount (₹)	Payments	Amount (₹)
To Subscriptions	20,000	By Salaries	1,500
To Interest	300	By Badminton Court	2,000
To Rent	200	By Insurance	200
To Badminton Fees	2,000	By Furniture	2,000
To Tournament Fees	9,000	By Sundry Expenses	3,000
To Admission Fees	2,000	By Tournament Expenses	8,000
To Donations for Prize	5,000	By Printing	1,300
		By Newspapers and Magazines	500
		By Investments	10,000
		By Balance	10,000
	38,500		38,500

Further Information :

On 31st March, 2018 the club owned a building worth ₹ 50,000. The outstanding expenses and subscriptions due on the same date were ₹ 300 and ₹ 1,000 respectively.

Prepare an Income and Expenditure A/c for the year ended 31st March, 2019 and a Balance Sheet as on that date after considering the following additional information :

(1) Subscriptions received for 2019–20 ₹ 2,000. (2) Subscriptions still due for 2018–19 ₹ 1,000. (3) Subscriptions received in 2018–19 include ₹ 500 on account of 2017–18. (4) Outstanding salaries on 31st March, 2019 ₹ 200. (5) Prepaid insurance on 31st March 2019 ₹ 50. (6) Depreciate building, badminton court and furniture by 6 %, 25 % and 20 % respectively. (7) Capitalise half of the Admission fees. Capital fund on 1st April, 2018 was ₹ 50,700.

[**Ans.** (1) Surplus = ₹ 12,750 (2) Capital fund at the end = ₹ 64,450 (3) Balance Sheet Total = ₹ 71,650.]

[**Hints :**

(1) Subscriptions outstanding ₹ 1000 for current accounting year 2018–19 are to be added to subscriptions and then to be shown on the Assets side of Balance Sheet.

(2) Subscriptions received in advance for 2019–20 ₹ 2,000 and subscriptions received relating to previous year 2017–18 ₹ 500 are to be deducted from subscriptions.

(3) Subscriptions still due for 2017–18 = 1,000 – 500 = ₹ 500 are to be shown on the Assets side of Balance Sheet.]

Q. 7. The following are the Balance Sheet and Receipts and Payments Account of Saraswati High School :

Balance Sheet as on 1st April, 2019

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital Fund	3,00,000	Buildings	90,000
Entrance Fees	61,000	Furniture	45,000
Outstanding Salaries	6,000	Laboratory	60,000
		Library	68,000
		Investments	85,000
		Cash in Hand	6,000
		Cash at Bank	5,000
		Outstanding Tuition Fees	8,000
	3,67,000		3,67,000

Dr. Receipts and Payments Account for the year ended 31st March, 2020 Cr.

Receipts	Amount (₹)	Payments	Amount (₹)
To Balance b/d		By Salaries	23,000
Cash in Hand	6,000	By Rent	16,000
Cash at Bank	5,000	By Sundry Expenses	3,100
To Government Grants	33,500	By Stationery	3,000
To Tuition Fees	50,000	By Furniture Purchased	49,000
To Term Fees	24,000	By Annual Gathering Expenses	16,400
To Donations for Library	25,000	By Insurance	3,600
To Miscellaneous Receipts	11,100	By Repairs to Buildings	17,000
To Sale of Old Furniture	6,500	By Subscriptions to Periodicals	3,000
(book value ₹ 8,000)		By Balance c/d	
To Interest on Investments	2,000	Cash in Hand	9,000
		Cash at Bank	20,000
	1,63,100		1,63,100

Adjustments :

(1) Depreciate Buildings @ 10 % and Furniture, Library and Laboratory @ 20 % charge depreciation on the closing balances of the assets.

(2) Salaries outstanding ₹ 15,000.

(3) Tuition fees still receivable ₹ 6,000.

(4) Insurance premium is paid for one year ending 30th June, 2020.

(5) Prepaid rent ₹ 2,000.

(6) Investments carry interest at the rate of 10 % p.a.

(7) Last year's entrance fees is to be capitalised.

[**Ans.** (1) Deficit = ₹ 19,400 (2) Capital fund at the end = ₹ 3,41,600
(3) Balance Sheet Total = ₹ 3,81,600.]

[**Hints :**

(1) Entrance fees shown in the last Balance Sheet are to be added to capital fund.

(2) Outstanding salaries and outstanding tuition fees shown in the last Balance Sheet are to be deducted from salaries and tuition fees respectively.

(3) Prepaid insurance = 3,600 × $\frac{8}{12}$ = ₹ 900. Prepaid insurance is to be deducted from Insurance and then to be shown on the Assets side of the Balance Sheet.]

Q. 8. From the following information of Ellisbridge Gymkhana, prepare an Income and Expenditure Account for the year ending 31-03-2019 and Balance Sheet as on that date :

Dr. **Receipts and Payments Account for 2018 – 19** **Cr.**

Receipts	Amount (₹)	Payments	Amount (₹)
To Opening Cash Balance	4,000	By Salaries	22,000
To Sale of Drama Ticket	21,000	By General Expenses	5,000
To Donation for Sports Prizes	10,000	By Sports Equipment	15,000
To Subscriptions	48,000	(Purchased on 1-07-2018)	
To Entrance Fees	6,000	By Printing and Stationery	4,200
To Annual Function Income	20,000	By Drama Expenses	12,000
To Sale of Scrap of Old Equipment	1,000	By Audit Fees	1,800
		By Honorarium to Secretary	6,000
		By Annual Function Expenses	18,000
		By Bank Loan Interest	600
		By Ground Maintenance Expenses	9,000
		By Repairing Expenses	3,400
		By Tournament Expenses	4,000
		By Distribution of Sports Prizes	2,000
		By Closing Cash Balance	7,000
	1,10,000		1,10,000

Adjustments :

(1) Balance on 1-4-2018, Buildings : ₹ 1,00,000, Furniture ₹ 25,000; Sports equipment ₹ 30,000; 10 % Bank loan ₹ 20,000 and capital fund ₹ 1,39,000.

(2) Included in subscriptions is ₹ 3,000 received for 2019 – 20.

(3) Outstanding subscriptions of 2018 – 19 is ₹ 2,000.

(4) Capitalise half of entrance fees.

(5) Outstanding salary ₹ 2,000 and stationery stock ₹ 400.

(6) Depreciate sports equipment by 20 %, Building by 10 % and Furniture by 20 % depreciation is charged on closing balances.

[**Ans.** (1) Deficit = ₹ 20,250. (2) Capital fund at the end = ₹ 1,21,750.
(3) Balance Sheet Total = ₹ 1,56,150.]

[**Hints :**

(1) Donation for sports prizes is to be shown on the Liabilities side of Balance Sheet. From such fund cost of distribution of sports prizes is to be deducted.

(2) Outstanding interest on Bank loan = Interest due on Bank loan – Interest on Bank loan paid
= 20,000 @ 10 % for 1 year – 600 = 2,000 – 600 = ₹ 1,400.

Outstanding interest on bank loan is to be added to interest on bank loan on the debit side of Income and Expenditure Account and then show the same on the Liabilities side of Balance Sheet.]

Q. 9. The following is the Receipts and Payments Account of Young Entertainment Club, Mumbai for the year ending 31st March, 2019 :

Dr. Receipts and Payments Account for the year ended 31st March, 2019 Cr.

Receipts	Amount (₹)	Payments	Amount (₹)
To Opening Cash Balance	2,500	By Subscriptions of Periodicals	2,600
To Subscriptions		By Salaries	30,000
2017 – 18	8,000	By Postage and Courier Charges	1,000
2018 – 19	42,200	By Expenses of Annual Functions	15,000
2019 – 20	1,600	By Sundry Expenses	4,660
To Receipts from Drama	10,000	By Stationery	4,000
To Interest on Investments	1,500	By 12 % Investments (1–07–2018)	25,000
To Entrance Fees	20,000	By Municipal Taxes	2,000
To Rent from Hiring of Hall	5,000	By Purchase of Furnitures	15,000
To Sale Proceeds of Waste Papers	900	By Closing Cash Balance	13,040
To Legacy	10,000		
To Sale of Furniture	10,600		
(Cost of furniture ₹ 9,500)			
	1,12,300		1,12,300

You are required to prepare an Income and Expenditure Account and a Balance Sheet for the year ending 31st March, 2019 considering the following adjustments :

(1) Young Entertainment Club had 450 members each paying an annual subscription of ₹ 100, ₹ 1,800 being in arrears for 2017–18 at the beginning of accounting year 2018 – 19.

(2) Three fourth of the entrance fees is to be transferred to capital fund. Capital fund as on 1 – 04 – 2018 was ₹ 68,300.

(3) The outstanding sundry expenses amounted to ₹ 1,000 and outstanding salaries ₹ 2,000. Prepaid municipal taxes ₹ 600.

(4) The stock of stationery as on 31st March, 2018 was ₹ 1,000 and ₹ 1,700 on 31st March, 2019.

(5) The assets of Young Entertainment Club on 1st April, 2018 were : Building ₹ 20,000; Furniture ₹ 25,000; 12 % Investment ₹ 10,000; charge depreciation on Building @ 10 % p.a. and Furniture valued @ ₹ 27,000.

(6) Rent due but not yet received ₹ 1,100.

[**Ans.** (1) Surplus = ₹ 5,090. (2) Capital fund at the end = ₹ 88,390.
(3) Balance Sheet Total = ₹ 1,02,990.]

[**Hints :**

(1) Rent due but not yet received is to be shown on the credit side of Income and Expenditure A/c and then it is to be also shown on Assets side of a Balance Sheet.

(2) Subscriptions outstanding for 2018–19 = 450 × 100 – 42,200 = 45,000 – 42,200 = ₹ 2,800, Subscriptions of ₹ 1,800 still due in respect of 2017–18 is to be shown on the Assets side of Balance Sheet.

(3) Interest due on Investments = (12 % on ₹ 10,000 for 1 year + 12 % on ₹ 25,000 for 9 months) − (Interest received)

= (1,200 + 2,250) − 1,500 = 3,450 − 1,500 = ₹ 1,950.

(4) Legacy is to be shown on the Liabilities side for Balance Sheet.]

Q. 10. From the following information of Jitendra Club, you are required to prepare Income and Expenditure A/c for the year ended on 31-03-2019 and Balance Sheet as on that date :

Balance Sheet as on 31st March, 2018

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital Fund		20,750	Land and Building		13,000
			Furniture		2,000
			Fixed Deposit in the Bank		2,000
			Sports Materials		650
			Ground Expenses		1,500
			Investments		1,000
			Cash in Hand		200
			Cash at Bank		400
		20,750			20,750

Dr. **Receipts and Payments Account for the year ended 31st March, 2019** **Cr.**

Receipts	Amount (₹)	Amount (₹)	Payments	Amount (₹)	Amount (₹)
To Cash in Hand		200	By Salary		600
To Cash at Bank		400	By Stationery		160
To Subscription		1,100	By Cricket Match		
To Income from Cricket Match			Expenditure		325
To Interest		675	By Insurance		60
To Entrance Fees		125	By Sundry Expenses		290
To Sundry Income		475	By Garden Expenses		65
		285	By Sports Expenditure		750
			By Cash in Hand		110
			By Cash at Bank		900
		3,260			3,260

Additional Information :

(1) Subscriptions for the year 2018 – 19 were not received to the tune of ₹ 225 and subscriptions for the year 2019–20 received in advance were amounted to ₹ 60.

(2) Salaries not paid for the year 2018 – 19 ₹ 85.

(3) Prepaid insurance was ₹ 15.

(4) Interest ₹ 125 had accrued but was not received.

(5) Depreciate Furniture at 5 % and Land and Building by ₹ 160 and write off 1/3 ground expenses this year.

(6) Entrance fees will be treated as revenue income.

[**Ans.** (1) Deficit = ₹ 130 (2) Capital fund at the end = ₹ 20,620 (3) Balance Sheet Total = ₹ 20,765.]

[**Hint :** Since entrance fees are treated as revenue income they are to be credited to Income and Expenditure Account.]

Q. 11. The following was the Receipts and Payments Account of Shahu Club for the year ended on 31st March, 2019 :

Dr. Receipts and Payments Account for the year ended 31st March, 2019 Cr.

Receipts	Amount (₹)	Amount (₹)	Payments	Amount (₹)	Amount (₹)
To Balance b/d		4,160	By Salaries		5,200
To Subscriptions :			By Drama Expenses		2,580
2017 – 18	340		By Lighting		936
2018 – 19	16,000		By General Expenses		1,400
2019 – 20	412	16,752	By Rent and Taxes		480
To Donations		4,800	By Printing and Stationery		964
To Receipts from Drama		3,504	By Expenses for 2017– 18		2,400
To Interest		324	By 10 % Fixed Deposit		16,000
To Entrance Fees		4,000	(31–03–2019)		
			By Balance c/d		3,580
		33,540			33,540

You are required to prepare an Income and Expenditure A/c for 2018 – 19 and a Balance Sheet as on 31st March, 2019 after taking into consideration the following adjustments :

(1) The outstanding salaries were ₹ 800.

(2) The prepaid rent and taxes were ₹ 80. Capital fund as on 1–04–2018 was ₹ 66,780.

(3) Land and Building stood in the books at ₹ 60,000 and Furniture at ₹ 4,600. It is required to write off depreciation on these assets at 2 % and 10 % respectively.

(4) All donations and 50 % of entrance fees are to be capitalised.

(5) There are 450 members each paying an annual subscription of ₹ 40.

(6) Subscriptions of ₹ 80 for the year 2017 – 18 are not yet received.

[**Ans.** (1) Surplus = ₹ 9,888 (2) Capital fund at the end = ₹ 83,468 (3) Balance Sheet Total = ₹ 84,680.]

[**Hints :**

(1) Outstanding subscriptions for current accounting year = Subscriptions receivable for current year – Subscriptions received during the current year = 450 × 40 – 16,000 = 18,000 – 16,000 = ₹ 2,000.

(2) Subscriptions of ₹ 80, in respect of previous accounting year still due is to be shown on the Assets side of Balance Sheet.]

Q. 12. From the following information of K.D. Hospital, prepare Income and Expenditure Account and Balance Sheet for the year ended on 31st March, 2019.

Dr. **Receipts and Payments Account for the year ended 31st March, 2019** **Cr.**

Receipts	Amount (₹)	Amount (₹)	Payments	Amount (₹)	Amount (₹)
To Balance b/d			By Balance b/d		
Cash		13,000	Bank Overdraft		11,100
To Government Grant		20,000	By Medicines		27,500
To Subscriptions		65,000	By Rent		6,000
To Donation for Operation			By Subscriptions to Magazines		
Theatre		60,000	and Periodicals		3,000
To Donation		15,000	By Operation Theatre		
To Income of Charity Show		13,000	Construction Expenses		50,000
To Interest on Investments		2,500	By Honorarium to Doctors		24,000
To Balance c/d			By Salaries		16,000
Bank Overdraft		1,500	By Miscellaneous Expenses		900
			By Medical Equipments		
			Purchased		25,000
			By Charity Show Expenses		15,500
			By Balance c/d		
			Cash		11,000
		1,90,000			1,90,000

Additional Information :

	Balance as on 1 – 4 – 2018 ₹	Balance as on 31 – 03 – 2019 ₹
(1) Outstanding subscriptions	6,500	8,500
(2) Pre-received subscriptions	4,500	5,500
(3) 12 % Investments	30,000	30,000
(4) Medical equipments	20,000	42,000
(5) Stock of medicines	16,500	13,000
(6) Building less depreciation	44,000	42,000
(7) Rent due	2,000	3,000
(8) Outstanding salaries	4,000	5,200
(9) Capital fund	1,08,400	—

[**Ans.** (1) Surplus = ₹ 14,000 (2) Capital fund at the end = ₹ 1,22,400
(3) Balance Sheet Total = ₹ 1,97,600.]

[**Hints :**

(1) Donation received for operation theatre is a donation received for specific purpose. This is specific fund. Hence, it is not to be credited to Income and Expenditure Account. It is to be shown on the liabilities side of Balance Sheet and construction of operation theatre is to be shown on the Assets side of Balance Sheet.

(2) Depreciation on medical equipments are to be calculated as follows :

Depreciation on medical equipments = Opening stock of medical equipments + Purchase of medical equipments – Closing stock of medical equipments

$$= 20{,}000 + 25{,}000 - 42{,}000 = 45{,}000 - 42{,}000 = ₹\ 3{,}000$$

(3) Interest still due on investments = Interest receivable – Interest received

$$= 30{,}000 \times \frac{12}{100} \times \frac{1}{1} - 2{,}500 = 3{,}600 - 2{,}500 = ₹\ 1{,}100.]$$

Q. 13. Following is the Balance Sheet and Receipts and Payments Account of the Sevagiri Hospital, Satara : Prepare Income and Expenditure account for the year ended on 31st March, 2020 and Balance Sheet as on that date :

Balance Sheet as on 1st April, 2019

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital Fund	10,00,000	Cash in Hand	6,000
Outstanding Salaries	22,000	Cash at Bank	30,000
Medical Bill Unpaid	6,000	Land and Building	8,00,000
		Furniture	70,000
		Equipment	1,20,000
		Outstanding Subscription	2,000
	10,28,000		10,28,000

Receipts and Payments Account for the year ending 31st March, 2020

Receipts	Amount (₹)	Payments	Amount (₹)
To Balance b/d		By Salaries (Including of previous year)	1,10,000
Cash in Hand	6,000	By Medicines	48,000
Cash at Bank	30,000	By Equipment Purchased	20,000
To Subscription	1,30,000	By Taxes	3,000
(Including ₹ 2,000 received for previous year)		By General Expenses	8,600
		By Balance c/d	
To Sale of Old Furniture	20,000	Cash in Hand	15,400
(Book value ₹ 30,000)		Cash at Bank	50,000
To Donations (Revenue)	44,000		
To Life Membership Fees	25,000		
	2,55,000		2,55,000

Consider the following adjustments :

(1) Outstanding subscription ₹ 15,000.

(2) Capitalise the amount of life membership fees.

(3) Prepaid taxes ₹ 500.

(4) Outstanding salary ₹ 12,000.

(5) Write off depreciation ₹ 20,000 from land and building and ₹ 30,000 from equipment.

(6) Outstanding medicine bill as on 01 – 04 – 2019 is still due.

[**Ans.** (1) Deficit = ₹ 32,100 (2) Capital fund at the end = ₹ 9,92,900
(3) Balance Sheet Total = ₹ 10,10,900.]

[**Hints :**

(1) Loss on sale of old furniture = Book value–Selling price = 30,000 – 20,000 = ₹ 10,000. Loss on sale of furniture is to be debited to Income and Expenditure A/c.

Book value of furniture sold ₹ 30,000 is to be deducted from the value of furniture on the Assets side of the Balance Sheet.

(2) Life membership fees ₹ 25,000 is to be added to Capital fund on the Liabilities side of the Balance Sheet.

(3) Last year's outstanding salaries ₹ 22,000 is to be deducted from salaries on the debit side of Income and Expenditure A/c. Outstanding salaries for current year ₹ 12,000 is to be added to Salaries and then to be shown on the Liabilities side of the Balance Sheet.

(4) Last year's outstanding subscriptions ₹ 2,000 is to be deducted from subscriptions on the debit side of Income and Expenditure A/c. Current year's outstanding subscriptions ₹ 15,000 is to be added to subscriptions and then it is to be shown on the Assets side of the Balance Sheet.

(5) Prepaid taxes ₹ 500 is to be deducted from taxes on the debit side of Income and Expenditure A/c and then to be shown on the Assets side of the Balance Sheet.]

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3 RECONSTITUTION OF PARTNERSHIP

(Admission of Partner)

SYLLABUS

- **3.1** Meaning of Reconstitution of Partnership
  - **3.1.1** Different forms of Reconstitution
- **3.2** Admission of a Partner
  - **3.2.1** Meaning and Need
  - **3.2.2** Capital brought in by new partner
  - **3.2.3** New Profit Sharing Ratio
  - **3.2.4** Sacrifice Ratio
  - **3.2.5** Meaning of Goodwill
    - **3.2.5.1** Methods of Valuation of Goodwill
      - (A) Average Profit Method
      - (B) Super Profit Method
    - **3.2.5.2** Accounting treatment of Goodwill
  - **3.2.6** Revaluation of Assets and Liabilities
  - **3.2.7** Adjustment of accumulated Profit and Losses
  - **3.2.8** Adjustment of Capital

(A) BRIEF OVERVIEW

3.1 Meaning of Reconstitution of Partnership :

To reconstitute means to form or create it again. Accordingly reconstitution of partnership means to change the earlier relationship and form a new relationship between or among the partners. It refers to the change in the form of partnership due to making of new agreement by the partners. Such reconstitution of partnership takes place on account of admission of a new partner or retirement or death of existing partner.

3.1.1 Different forms of reconstitution : The different forms of reconstitution of partnership are stated below :

(1) **Change in profit-sharing of existing partner :** Sometimes due to certain circumstances, existing partners may decide to change their profit and loss ratio. If one of the partners purchases certain profit sharing ratio from another partner, the old partnership deed may get terminated and new agreement comes into force stating the new profit sharing ratio.

(2) **Admission of a new partner :** If need arises a new person may be admitted into the partnership firm with the consent of all the existing partners. On admission, new partner becomes a new owner of the firm. He is required to bring in his share of capital and goodwill and is entitled to share in future profit. Hence, partnership agreement changes.

(3) **Retirement of existing partner :** On account of old age, continuing ill health or by sweet will an existing partner may retire from the partnership firm. He is called outgoing partner. Partnership firm is required to pay all his dues on retirement. The profit sharing ratio of continuing partners increases due to reduction in the number of partners.

(4) Death of partner : When a partner dies, he no more remains as partner of a firm. On natural ground he ceases to be partner of a firm. On death of a partner, the profit sharing ratio of continuing partners get changed and old partnership agreement gets terminated.

3.2 Admission of a Partner :

As per the Section 31(1) of the Partnership Act, 1932, if need arises, with the consent of all the existing partners a new person can be admitted in the partnership firm. Such a partner is called incoming partner.

3.2.1 Meaning and Need of admission of a partner :

Meaning : Admission of a partner refers to a process in which a new person is taken into the existing partnership firm as a partner as per certain terms and conditions of partnership deed. On admission, a new partner brings in cash for his share of capital and goodwill, skill, services, experience, etc. into the existing partnership business and in exchange he gets certain share in future profit of the firm and right in the assets of the firm.

Need : The need of admission of a partner is stated as follows :

(i) To increase the capital resources of the firm and

(ii) To secure the advantages of the new person's skill, experience and business connections to develop efficiency of the business.

3.2.2 Capital brought in by new partner : At the time of admission, new partner is required to bring in cash or/and other assets, if any, as his capital, to get rights in the assets and definite share in the future profit of the firm.

When a new partner brings in cash towards his share of capital, the following journal entry is passed :

Cash / Bank A/c	Dr.	XXX	
To New Partner's Capital A/c			XXX

(Being cash contributed by the new partner towards his capital)

In case a new partner brings in other assets towards his capital the following journal entry is passed :

Assets A/c	Dr.	XXX	
To New Partner's Capital A/c			XXX

(Being assets brought in by the new partner towards his capital)

3.2.3 New profit sharing ratio : In all cases of admission of a partner, the new partner gets the agreed share in the future of profit whereas all the old partners together get the remaining share. As a result profit sharing ratio of existing (old) partners changes and newly constituted firm is required to calculate new profit sharing ratio for all the partners including new partner. Such new ratio is used by the firm to write off goodwill and to make adjustments in Capital Accounts of the Partners. New Ratio is calculated by using following formula :

Assume that total profit be 1, The Balance of 1 = (1 – share given to new partner).

New Ratio = (Balance of 1) × Old Ratio.

If sacrifice ratio of old partners is given along with old ratio, the new ratio can be calculated as → New Ratio = Old Ratio – Sacrifice Ratio.

3.2.4 Sacrifice ratio : Sacrifice ratio is the ratio in which two or more old partners surrender or give up their shares in the future profit in favour of a new partner of the firm. Sacrifice ratio is calculated by using the following formula :

Sacrifice Ratio = Old Ratio – New Ratio

Examples :

(i) **Calculation of New Ratio :**

Dhyan and Gyan are partners of a firm sharing profit and loss in the ratio of 3 : 2. They admitted Vigyaan for $\frac{1}{4}$th share in future profit. Find new profit and loss ratio of all three partners.

Ans. Balance of 1 = 1 – share of new partner

$= 1 - \frac{1}{4} = \frac{3}{4}$ (Remaining share) New ratio = Old ratio × Balance – 1

Dhyan's new ratio $= \frac{3}{5} \times \frac{3}{4} = \frac{9}{20}$ Gyan's new ratio $= \frac{2}{5} \times \frac{3}{4} = \frac{6}{20}$

Vigyaan's ratio $= \frac{1}{4} \times \frac{5}{5} = \frac{5}{20}$

∴ New profit-loss ratio of partners $= \frac{9}{20} : \frac{6}{20} : \frac{5}{20} = \mathbf{9 : 6 : 5}$

(ii) **Calculation of Sacrifice Ratio :**

A and B are partners sharing profit and loss in the ratio of 5 : 3. They admitted C as a new partner and their new profit and loss ratio is 4 : 2 : 1. Find out sacrifice ratio for partners A and B.

Ans. Sacrifice ratio = Old ratio – New ratio

A's sacrifice $= \frac{5}{8} - \frac{4}{7} = \frac{35-32}{56} = \frac{3}{56}$ B's sacrifice $= \frac{3}{8} - \frac{2}{7} = \frac{21-16}{56} = \frac{5}{56}$

Therefore, sacrifice ratio of A and B $= \frac{3}{56} : \frac{5}{56} = \mathbf{3 : 5}$

(iii) **Calculation of Sacrifice Ratio and New Ratio :**

Ashok and Asha are partners sharing profits in the ratio of 3 : 2 respectively. They admit Usha for $\frac{1}{5}$th share of profit which she takes equally from Ashok and Asha. Calculate Sacrifice Ratio and New Profit sharing ratio.

Ans. Ashok's sacrifice ratio $= \frac{1}{5} \times \frac{1}{2} = \frac{1}{10}$

Asha's sacrifice ratio $= \frac{1}{5} \times \frac{1}{2} = \frac{1}{10}$

New ratio = Old ratio – Sacrifice ratio

Ashok's new ratio $= \frac{3}{5} - \frac{1}{10} = \frac{30-5}{50} = \frac{25}{50}$

Asha's new ratio $= \frac{2}{5} - \frac{1}{10} = \frac{20-5}{50} = \frac{15}{50}$

Usha's new ratio $= \frac{1}{5} \times \frac{10}{10} = \frac{10}{50}$

∴ New Ratio of Ashok, Asha and Usha

$= \frac{25}{50} : \frac{15}{50} : \frac{10}{50}$ i.e. 25 : 15 : 10 = 5 : 3 : 2

(iv) **Calculation of Sacrifice Ratio and New Ratio :**

Kishor and Kamini are partners sharing profits in the ratio of 5 : 3 respectively. They admit Padmini as new partner. Kishor surrenders $\frac{1}{5}$ and Kamini surrenders $\frac{1}{6}$ in favour of Padmini. Calculate New ratio and Sacrifice ratio.

Ans. Old ratio of Kishor and Kamini is 5 : 3 i.e. $\frac{5}{5+3} : \frac{3}{5+3} = \frac{5}{8} : \frac{3}{8}$

Sacrifice ratio of Kishor = $\frac{1}{5} \times \frac{5}{8} = \frac{1}{8}$

Sacrifice ratio of Kamini = $\frac{1}{6} \times \frac{3}{8} = \frac{1}{16}$

Sacrifice ratio of Kishor and Kamini = $\frac{1}{8} : \frac{1}{16} = \frac{1}{8} \times \frac{2}{2} : \frac{1}{16} = \frac{2}{16} : \frac{1}{16}$ i.e. 2 : 1

Padmini's share = $\frac{1}{8} + \frac{1}{16} = \frac{2}{16} + \frac{1}{16} = \frac{3}{16}$

New Ratio = Old Ratio – Sacrifice Ratio

Kishor's New Ratio = $\frac{5}{8} - \frac{1}{8} = \frac{4}{8} = \frac{8}{16}$

Kamini's New Ratio = $\frac{3}{8} - \frac{1}{16} = \frac{6-1}{16} = \frac{5}{16}$

∴ New Ratio of Kishor, Kamini and Padmini = $\frac{8}{16} : \frac{5}{16} : \frac{3}{16}$ i.e. 8 : 5 : 3

3.2.5 Meaning of Goodwill :

It is often observed that some business firms are in a position to earn higher profit in comparison to other firms dealing in the similar line of products. This extra earning capacity of a business firm is called goodwill. In other words, Goodwill is the monetary value of the reputation of a firm as measured in terms of its expected future profits. In the words of **Lord Macnaghten,** Goodwill is *"the benefits and advantages of the good name, reputation and connections of the business."*

According to **Institute of Chartered Accountants of India,** Goodwill is "an intangible asset arising from business connection or reputation or trade name of an enterprise." Goodwill is built up slowly and gradually by a business concern through great efforts over a long period of time.

The factors on which the value of goodwill depends are : (1) monopoly enjoyed by the business (2) its continued prosperity (3) its reputation, location and connections with leading parties (4) its trade mark, brand name and patents (5) its high profit earning capacity and (6) good and cordial relations with all including customers, employees etc.

Goodwill is an intangible asset because its existence cannot be verified by our senses. It is an asset that cannot be expected to realise or converted into cash unless it is sold along with the business. Goodwill is valued and recorded in the books of accounts by the partnership firm on the following occasions : (1) Sale or purchase of a firm as a going concern (2) Admission of a partner (3) Retirement or death of a partner (4) Change in the profit and loss ratio of the partners.

3.2.5.1 Methods of Valuation of Goodwill : As prescribed in the syllabus, the value of goodwill as on a particular date is ascertained by using any one of the following methods :

(A) Average Profit Method and (B) Super Profit Method.

(A) Average Profit Method : Under this method, goodwill is valued at certain number of years' purchases of the average profit of the firm. To compute the value of Goodwill as per this method the following formulae are used :

(1) Total Profits = Profits of the given number of years–losses, if any.

(2) Average Profit = $\frac{\text{Total Profits of given no. of years}}{\text{No. of years given}}$

(3) Goodwill = Averge Profit × No. of years' purchases

Steps to calculate goodwill : Following steps are required to be taken for calculating goodwill :

(1) Calculate total profit by giving plus sign to profits and minus sign to losses.

(2) Calculate average profit by dividing total profit by given number of years.

(3) Calculate the value of goodwill by multiplying average profit by given number of years' purchases.

Example :

A and B are partners sharing profits and losses in the ratio of 3 : 2. They admit C for 1/6th share in future profit. For the purpose of admission of C, goodwill of the firm should be valued on the basis of 3 years' purchases of last 5 years average profit. The profits and losses were as follows :

Year	Amount (₹)
2014–'15	2,40,000 (Profit)
2015–'16	2,50,000 (Profit)
2016–'17	1,80,000 (Loss)

Year	Amount (₹)
2017–'18	1,70,000 (Profit)
2018–'19	3,20,000 (Profit)

Find out the value of goodwill of the firm.

Solution : Total Profit for last 5 years = 2,40,000 + 2,50,000 – 1,80,000 + 1,70,000 + 3,20,000
(loss)

= 9,80,000 – 1,80,000 = ₹ 8,00,000

$$\text{Average Profit} = \frac{\text{Total Profits}}{\text{No. of years}} = \frac{8,00,000}{5} = ₹\ 1,60,000$$

Goodwill = Average Profit × No. of years' purchases = 1,60,000 × 3 = ₹ 4,80,000.

∴ Goodwill = ₹ 4,80,000

(B) Super Profit Method : Under this method, goodwill is valued at certain number of years' purchases of the super profit of the partnership firm. In order to understand the formulae used for computing the value of goodwill under super profit method, the following concepts need to be understood :

(1) Super Profit : Super profit is the profit earned by the business concern over and above the normal profit or return earned on capital exmployed. Super profit is calculated by using the following formula :

Super Profit = Average Profit – Normal Profit.

(**Normal Profit or Normal Return on Capital Employed :** Normal profit or normal return on capital employed refers to a reasonable profit earned by a business concern to survive in the industry after meeting all its business expenses.

It is ascertained by using the following formula :

Normal Profit or Normal Return on Capital Employed = Capital Employed × Normal Rate of Return.)

(2) Capital Employed : Capital employed is the total amount of capital used by the business concern to run and maintain its business activities. Capital employed is made of fixed assets other than goodwill plus current assets minus current liabilities.

(3) Normal Rate of Return : Normal rate of return is the return or profit normally expected on the capital employed by considering the returns or profit actually earned by other firms in the same industry. This is the average rate of return or profit earned in the industry. Normal rate of return depends on the nature of business and element of risk involved therein.

(4) Goodwill : Super Profit × Number of years' purchases.

Example :

The capital of a partnership firm is ₹ 16,00,000 and the profits and losses for the last 5 years are as under :

Years	I	II	III	IV	V
Profit / Loss (₹)	3,30,000 (Profit)	3,40,000 (Profit)	3,44,000 (Profit)	70,000 (Loss)	3,56,000 (Profit)

The reasonable return of the capital employed is 12 %, Goodwill is valued at 2 years' purchases of Super Profit, calculate the value of goodwill under Super Profit method.

Solution :

(1) Total Profits for the last 5 years = 3,56,000 – 70,000 + 3,44,000 + 3,40,000 + 3,30,000
= ₹ 13,70,000 – 70,000 = ₹ 13,00,000

(2) Average Profit = $\frac{\text{Total Profits}}{\text{Given no. of years}} = \frac{13,00,000}{5}$ = ₹ 2,60,000

(3) Normal Profit = Capital employed × Normal Rate of Return
= 16,00,000 × 12 % = 16,00,000 × $\frac{12}{100}$ = ₹ 1,92,000

(4) Super Profit = Average Profit – Normal Profit
= 2,60,000 – 1,92,000 = ₹ 68,000

(5) Goodwill = Super Profit × No. of years' purchases
= 68,000 × 2 = ₹ 1,36,000

3.2.5.2 Accounting Treatment of Goodwill : As new partner gets certain share in future profit of the firm from old partners who sacrifice their profit sharing ratio in favour of him, for which they (old partners) must be compensated for such a loss. Therefore, new partner is required to bring in certain amount for goodwill in addition to the amount to be brought in by him towards his share of capital. At the time of admission, goodwill may be given treatment in one of the following two methods, viz.

(A) Premium Method and (B) Valuation Method.

(A) Premium Method : Under premium method following possible cases are considered :

Journal entries are shown as follows :

(i) When a new partner brings his share of goodwill in cash which is retained in the business :

(a) For amount brought in cash by a new partner as goodwill :

Cash / Bank A/c	Dr.	XXX	
To Goodwill A/c			XXX
(Being share in Goodwill brought in cash)			

(b) For transfer of benefit of Goodwill to old partners' Capital/Current A/cs :

Goodwill A/c	Dr.	XXX	
To Old Partners' Capital / Current A/cs			XXX
*(Goodwill is to be transferred in the **ratio of sacrifice**)*			
(Being benefits of goodwill transferred to old partners' Capital / Current Accounts)			

(ii) When a new partner brings Goodwill in cash but it is withdrawn by the old partners :

(a) For amount brought in cash by a new partner as goodwill :

Cash / Bank A/c	Dr.	XXX	
To Goodwill A/c			XXX
(Being share in goodwill brought in cash)			

(b) For transfer of benefit of Goodwill to old partners' Capital / Current A/cs :

Goodwill A/c	Dr.	XXX	
To Old Partners' Capital / Current A/cs			XXX
(Goodwill is to be transferred in the sacrifice ratio of the partners)			
(Being Goodwill credited to old partners' Capital / Current Accounts)			

(c) For withdrawal of Goodwill by old partners in cash :

Old Partners' Capital/Current A/cs	Dr.	XXX	
To Cash / Bank A/c			XXX
(Being Goodwill withdrawn by old partners in cash)			

(iii) When a new partner pays amount of Goodwill to old partners privately :

No accounting entry is to be passed in the books of the partnership firm as amount of goodwill is paid privately by a new partner to old partners, business firm as such is not at all benefited and therefore, there is no necessity of recording any entry for goodwill in the books of a partnership firm.

(B) Valuation Method : If the new partner does not bring in his share of goodwill in cash, a new Goodwill A/c may be opened and it may be treated in the following manner :

(i) If goodwill does not appear in the books of accounts :

(a) When Goodwill is raised and retained in the business :

Goodwill A/c	Dr.	XXX	
To Old Partners' Capital / Current A/cs **(old ratio)**			XXX
(Being Goodwill transferred to old partners' Capital/Current A/cs)			

(b) When Goodwill is raised and written off :

(1) Goodwill is raised :

Goodwill A/c	Dr.	XXX	
To Old Partners' Capital / Current A/cs **(old ratio)**			XXX
(Being Goodwill credited to old partners' Capital/Current A/c's)			

(2) Goodwill is written off :

All Partners' (including new partner) Capital / Current A/cs **(New ratio)**	Dr.	XXX	
To Goodwill A/c			XXX
(Being Goodwill adjusted among all partners including new partner in their new profit sharing ratio)			

(ii) If goodwill already appears in the books of accounts :

(a) If on revaluation, the revised value of goodwill is found to be lower than its existing value which already appears in the books : (Entry is to be passed only for difference in the value of goodwill)

Old Partners' Capital / Current A/cs	Dr.	XXX	
To Goodwill A/c			XXX

(Being Goodwill written off to old partners in the old profit sharing ratio)

Alternatively the following entry may be passed :

Revaluation/Profit and Loss Adjustment A/c	Dr.	XXX	
To Goodwill A/c			XXX

(Being reduction in the value of goodwill recorded)

(b) If on revaluation, the revised value of goodwill is found to be greater than its existing value which already appears in the books : (Entry is to be passed only for difference in the value of goodwill)

Goodwill A/c	Dr.	XXX	
To Old Partners' Capital / Current A/cs			XXX

(Being Goodwill credited to old partners' Capital/Current A/cs in their old profit sharing ratio)

Alternatively the following entry may be passed :

Goodwill A/c	Dr.	XXX	
To Revaluation/Profit and Loss Adjustment A/c			XXX

(Being increase in the value of goodwill recorded)

3.2.6 Revaluation of Assets and Liabilities : Just before the admission of a new partner, it is usual practice to revalue the assets and liabilities of the existing firm. The profit or loss which arises due to changes in their values is shared by the old partners alone. To record such changes in the values of assets and liabilities, a separate account is opened and operated. Such an account is called "Profit and Loss Adjustment A/c" or "Revaluation A/c". It is a nominal account showing the expenses or losses on the debit side and incomes or gains on the credit side. A decrease in the value of the assets and an increase in the amount of the liabilities are shown on the debit side of this account, while an increase in the assets or a decrease in the liabilities are shown on the credit side of this account. So also this account is debited for recording an outstanding expense and creating a provision for bad and doubtful debts and credited for recording incomes receivables, prepaid expenses and creating a provision for discount on creditors. Any balance of this account is then transferred to old partners' capital/current accounts in their old profit sharing ratio. Debit balance of Profit and Loss Adjustment A/c or Revaluation A/c indicates loss incurred on revaluation of assets and liabilities, while credit balance of this account shows profit earned on revaluation of assets and liabilities.

(a) Pro Forma journal entries on revaluation of assets and liabilities are given below :

(1) For increase in the value of the asset and decrease in the value of Liabilities :

Assets A/c	Dr.	XXX	
Liabilities A/c	Dr.	XXX	
To Revaluation A/c			XXX

(Being entry for increase in the value of asset and decrease in the value of liability)

(2) For decrease in the value of the asset and increase in the value of Liabilities :

Revaluations A/c	Dr.	XXX	
To Assets A/c			XXX
To Liabilities A/c			XXX

(Being entry for decrease in the value of asset and increase in the value of liability)

(3) For unrecorded assets discovered and recorded :

Assets A/c	Dr.	XXX	
To Profit and Loss Adjustment A/c			XXX

(Being unrecorded asset brought in the books)

(4) For unrecorded liabilities discovered and recorded :

Profit and Loss Adjustment A/c	Dr.	XXX	
To New liabilities A/c			XXX

(Being unrecorded Liabilities brought in the books)

(5) For taking over an asset by the old partner at the value less than its book value :

Partner's Capital/Current A/c	Dr.	XXX	
Profit and Loss Adjustment A/c	Dr.	XXX	
To Asset A/c			XXX

(Being asset taken over by partner brought in the books)

(6) For taking over an asset by the old partner at the value greater than its book value :

Partner's Capital/Current A/c	Dr.	XXX	
To Asset A/c			XXX
To Profit and Loss Adjustment A/c			XXX

(Being asset taken over by partner brought in the books)

(7) For transfer of credit balance on P and L Adjustment A/c (i.e. profit on revaluation) :

Profit and Loss Adjustment A/c	Dr.	XXX	
To Old Partners' Capital / Current A/cs			XXX

(Distribute profit in old profit sharing ratio)

(8) For transfer of debit balance on P and L Adjustment A/c (i.e. loss on revaluation) :

Old Partners' Capital / Current A/cs	Dr.	XXX	
To Profit and Loss Adjustment A/c			XXX

(Adjust loss in old profit sharing ratio)

(b) Pro Forma Profit and Loss Adjustment Account/Revaluation Account :

Dr. **Profit and Loss Adjustment Account / Revaluation Account** **Cr.**

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Assets A/c (Decrease in value)		XXX	By Assets A/c (Increase in value)		XXX
To Liabilities A/c (Increase in value)		XXX	By Liabilities A/c (Decrease in value)		XXX
To Liabilities A/c (Unrecorded liabilities)		XXX	By Assets A/c (Unrecorded assets)		XXX
To Assets A/c (Loss on sale)		XXX	By Assets A/c (Profit on sale)		XXX
To Old Partners' Capital / Current A/cs : A	XXX		By Old Partners' Capital / Current A/cs : A	XXX	
B	XXX	XXX	B	XXX	XXX
(If there is profit on revaluation)			(If there is loss on revaluation)		
		XXX			XXX

3.2.7 Adjustment of Accumulated Profits and Losses :

(1) Different type of Reserve Funds : Every year part of the profit, kept aside in a separate account by the partners to meet the loss, if any that may arise due to unforeseen contingencies like flood, fire, theft, sudden fall in prices of firm's products, etc. is called as General Reserve. The credit balance in General Reserve, Reserve Fund, Workmen's Compensation Fund, Investment Fluctuation Fund, Joint Policy Reserve, etc., are created out of past profit, the balance of the those reserves entirely belong to old partners and therefore new partner has no right to get any share in those reserves. Hence on admission of a new partner, entire balance in the above mentioned reserves is required to be transferred to old partners' capital accounts or current accounts in their old profit sharing ratio. The following journal entry is required to be passed for transfer of balance in various reserves :

Each Reserve A/c (individually) Dr. XXX
To Old Partners' Capital / Current A/cs XXX
(old ratio)
(Being balance in reserve transferred to old Partners' Capital/Current A/c's)

(2) Accumulated Profit/Loss : Every year part of the profit, which remains undistributed among the old partners, is carried forward to next year. Such undistributed profit accumulated over many years is shown in the Balance Sheet on liabilities side under the heading "Profit and Loss A/c". Similarly, part of the losses unadjusted among the partners is carried forward to next year. Such unadjusted losses if any, accumulated over many years are shown on the Assets side of the Balance Sheet under the heading "Profit and Loss A/c". At the time of admission of a new partner, entire balance of such accumulated profits or losses is transferred to old partners' capital/current accounts in their old profit sharing ratio. The following entries are required to be passed for transfer of accumulated profit/losses :

(b) Pro Forma Profit and Loss Adjustment Account/Revaluation Account :

Dr. **Profit and Loss Adjustment Account / Revaluation Account** **Cr.**

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Assets A/c (Decrease in value)		XXX	By Assets A/c (Increase in value)		XXX
To Liabilities A/c (Increase in value)		XXX	By Liabilities A/c (Decrease in value)		XXX
To Liabilities A/c (Unrecorded liabilities)		XXX	By Assets A/c (Unrecorded assets)		XXX
To Assets A/c (Loss on sale)		XXX	By Assets A/c (Profit on sale)		XXX
To Old Partners' Capital / Current A/cs : A	XXX		By Old Partners' Capital / Current A/cs : A	XXX	
B	XXX	XXX	B	XXX	XXX
(If there is profit on revaluation)			(If there is loss on revaluation)		
		XXX			XXX

3.2.7 Adjustment of Accumulated Profits and Losses :

(1) Different type of Reserve Funds : Every year part of the profit, kept aside in a separate account by the partners to meet the loss, if any that may arise due to unforeseen contingencies like flood, fire, theft, sudden fall in prices of firm's products, etc. is called as General Reserve. The credit balance in General Reserve, Reserve Fund, Workmen's Compensation Fund, Investment Fluctuation Fund, Joint Policy Reserve, etc., are created out of past profit, the balance of the those reserves entirely belong to old partners and therefore new partner has no right to get any share in those reserves. Hence on admission of a new partner, entire balance in the above mentioned reserves is required to be transferred to old partners' capital accounts or current accounts in their old profit sharing ratio. The following journal entry is required to be passed for transfer of balance in various reserves :

Each Reserve A/c (individually)	Dr.	XXX	
To Old Partners' Capital / Current A/cs (old ratio)			XXX

(Being balance in reserve transferred to old Partners' Capital/Current A/c's)

(2) Accumulated Profit/Loss : Every year part of the profit, which remains undistributed among the old partners, is carried forward to next year. Such undistributed profit accumulated over many years is shown in the Balance Sheet on liabilities side under the heading "Profit and Loss A/c". Similarly, part of the losses unadjusted among the partners is carried forward to next year. Such unadjusted losses if any, accumulated over many years are shown on the Assets side of the Balance Sheet under the heading "Profit and Loss A/c". At the time of admission of a new partner, entire balance of such accumulated profits or losses is transferred to old partners' capital/current accounts in their old profit sharing ratio. The following entries are required to be passed for transfer of accumulated profit/losses :

(a) Transfer of accumulated profit :

Profit and Loss A/c	Dr.	XXX	
To Old Partners' Capital/Current A/cs (old ratio)			XXX
(Being accumulated profit transferred to old partners Current/Capital A /c's)			

(b) Transfer of accumulated loss :

Old Partners' Capital / Current A/cs	Dr.	XXX	
To Profit and Loss A/c			XXX
(Being accumulated loss transferred to old partners Current/Capital A /c's)			

3.2.8 Adjustment of Capitals : At any time when the partners so desire (and especially after admission of a new partner), they may make their capitals proportionate to their new profit ratio either through their Current or Loan A/cs or by actually bringing in or withdrawing cash.

The capital accounts of all the partners are usually adjusted by taking new partner's capital as the base and then adjust the capital of other partners. Adjusted new capital balance of each old partner is then compared with his actual capital balance to find out deficit or surplus of capital. Ultimately, the deficit or surplus of capital of partners is adjusted either through partners' current account or his loan account or through cash.

The following journal entries are passed for adjustment of partners' capitals as mentioned above :

(a) For Adjustment of excess capital :

Old Partners' Capital A/cs	Dr.	XXX	
To Old Partner's Current A/c / Old Partner's Loan A/c / Cash A/c			XXX

(b) For Adjustment of deficit :

Old Partners' Current A/cs / Old Partner's Loan A/cs / Cash A/c	Dr.	XXX	
To Old Partner's Capital A/cs			XXX

(i) Computation of proportional capital of old partners on the basis of the capital of the new partner :

Example (1) : Amol and Anmol were partners in a firm sharing profits and losses in the ratio of 2 : 1 respectively. They admit Brij as partner for 1/4th share in the future profit. He is required to contribute ₹ 30,000 as her capital. All partners in the firm have decided to maintain their capital in proportion to the new profit sharing ratio.

You are required to compute the proportionate capital balances.

Solution : New profit ratio = Balance of 1 × Old ratio.

Amol's New ratio = (1−share given to Brij) × Old Ratio

$$= \left(1-\frac{1}{4}\right)\times\frac{2}{2+1}=\frac{3}{4}\times\frac{2}{3}=\frac{2}{4}$$

Anmol's New ratio $= \left(1-\frac{1}{4}\right)\times\frac{1}{2+1}=\frac{3}{4}\times\frac{1}{3}=\frac{1}{4}$

Brij's ratio $= \frac{1}{4}$. Now we will take new partner's capital as base to compute total capital of the firm.

If Brij's capital is ₹ 30,000 for $\frac{1}{4}$th share in profit then total capital of the firm is 30,000 × 4 (reciprocal of 1 / 4).

∴ Total capital of the firm = ₹ 1,20,000.

Amol's Proportionate capital = (Capital of the firm) × Amol's New profit ratio

$= 1,20,000 \times \frac{2}{4} =$ ₹ 60,000.

Anmol's Proportionate capital $= 1,20,000 \times \frac{1}{4} =$ ₹ 30,000

Brij's Proportionate capital $= 1,20,000 \times \frac{1}{4} =$ ₹ 30,000.

(ii) Determination of the capital of new partner on the basis of total capital of old partners :

Example (2) : Parth and Harsin are partners sharing profits and losses in the ratio of 4 : 3. After making all adjustments in regard to goodwill, reserves and profit/loss on revaluation of assets/liabilities, etc. the capital balances of partners are ₹ 32,000 and ₹ 24,000 respectively. Nayan is admitted as new partner and given $\frac{1}{3}$ rd share in future profit. Nayan is required to contribute proportionate capital. Find out how much amount Nayan is required to contribute?

Solution : Let the combined profit sharing ratio of old partners = is 1 and share given to new partner is $\frac{1}{3}$.

Balance combined profit sharing ratio of old partners $= 1 - \frac{1}{3} = \frac{3-1}{3} = \frac{2}{3}$

Reciprocal of balance combined profit sharing ratio of old partners $= \frac{3}{2}$.

Total capital = Old partners' total capital × Reciprocal of old partners' total profit sharing ratio

$= (32,000 + 24,000) \times \frac{3}{2} = 56,000 \times \frac{3}{2}$

= ₹ 84,000

Nayan's share in total capital of the firm = (Total capital) × (Nayan's share)

$= 84,000 \times \frac{1}{3} =$ ₹ 28,000.

Nayan is required to contribute ₹ 28,000 for his capital.

EXERCISE

(A) Select the most appropriate alternatives from the following and rewrite the sentences :

*(1) (1) Anuj and Eeshan are two partners sharing profits and losses in the ratio of 3 : 2. They decided to admit Aaroh for 1/5th share, the new profit sharing ratio will be ....

(a) 12 : 8 : 5 (b) 4 : 3 : 1 (c) 12 : 8 : 1 (d) 12 : 3 : 1

(2) Excess of proportionate capital over actual capital represents ....

(a) equal capital (b) surplus capital (c) deficit capital (d) gain

(3) .... is credited when unrecorded asset is brought into business.

(a) Revaluation Account (b) Balance Sheet

(c) Trading Account (d) Partners Capital Account

(4) When goodwill is withdrawn by the partner .... account is credited.

(a) Revaluation (b) Cash / Bank (c) Current (d) Profit and Loss Adjustment

(5) If asset is taken over by the partner .... Account is debited.

(a) Revaluation (b) Capital (c) Asset (d) Balance Sheet

Ans. (1) 12 : 8 : 5 (2) deficit capital (3) Revaluation Account (4) Cash / Bank (5) Capital

(2) (1) If an asset is depreciated, Revalutation Account is ....

(a) debited (b) credited (c) debited and credited (d) none of these

(2) .... Account is debited when unrecorded liability is brought into business.

(a) Liability (b) Revaluation (c) Capital (d) Current

(3) The proportion in which old partners make a sacrifice is called .... Ratio.

(a) Capital (b) Gaining (c) Sacrifice (d) New

(4) The .... Ratio is useful for making adjustment for goodwill among the old partners.

(a) New (b) Sacrifice (c) Old (d) Profit and Loss

(5) Krishna and Balram, who are equal partners, admit Arjun into partnership for 1/4th share, their new profit sharing ratio will be ....

(a) 3 : 3 : 1 (b) equal (c) 3 : 3 : 2 (d) 2 : 2 : 1

(6) In case of admission of a partner, the profit or loss on revaluation of assets and liabilities is shared by .... partners.

(a) all (b) old (c) new (d) none of these

(7) When the reserve funds is distributed to old partners, the .... Account is debited.

(a) Capital (b) Current (c) Reserve Fund (d) Profit and Loss

Ans. (1) debited (2) Revaluation (3) Sacrifice (4) Sacrifice (5) 3 : 3 : 2 (6) old (7) Reserve Fund

(3) (1) Goodwill brought in by a new partner is shared by the old partners in their .... Ratio.

(a) New (b) Gain (c) Sacrifice (d) Balance of 1

(2) .... Ratio is a ratio surrendered by old partners in favour of a new partner.

(a) Sacrifice (b) Gain (c) New (d) Old

(3) When goodwill is written off, partners' capital accounts are ....

(a) credited (b) debited (c) increase (d) none of these

(4) X and Y are equal partners, admit Z into the partnership. If Z's share is 1/5th, the new profit sharing ratio of the partners will be ....

(a) 3 : 2 : 1 (b) 4 : 2 : 1 (c) 3 : 3 : 2 (d) 2 : 2 : 1

(5) A and B who are equal partners admit C into the partnership for 1/7th share. The new profit sharing ratio of the partners will be ....

(a) 3 : 3 : 2 (b) 3 : 3 : 1 (c) 1 : 2 : 3 (d) 4 : 2 : 1

(6) If prepaid expenses are to be recorded in the books of account, they should be shown on the .... side of Revaluation A/c.

(a) debit (b) credit (c) liabilities (d) assets

(7) If an asset is appreciated, Revaluation Account is ....

(a) debited (b) credited (c) depreciated (d) neutralised

Ans. (1) Sacrifice (2) Sacrifice (3) debited (4) 2 : 2 : 1 (5) 3 : 3 : 1 (6) credit (7) credited

(B) * (1) Write the word / phrase / term, which can substitute each of the following sentences :

Statement	Ans. (word/phrase/term)
(1) Method under which calculation of goodwill is done on the basis of extra profit earned above the normal profit.	Super Profit Method
(2) An account opened to adjust the value of assets and liabilities at the time of admission of a partner.	Revaluation A/c or Profit and Loss A/c
(3) Reputation of business measured in terms of money.	Goodwill
(4) The ratio in which general reserve is distributed to the old partners.	Old Ratio
(5) Name the method of the treatment of goodwill where new partner will bring his share of goodwill in cash.	Premium Method
(6) The proportion in which old partners make a sacrifice.	Sacrifice Ratio
(7) Capital employed × NRR/100 =	Normal Profit
(8) An Account which is debited when the partner takes over the asset.	Partner's Capital A/c or Partner's Current A/c
(9) Profit and Loss Account balance appearing on liability side of Balance Sheet.	Undistributed Profit or Accumulated Profit
(10) Old ratio – New ratio =	Sacrifice Ratio

(2)

Statement	Ans. (word/phrase/term)
(1) The account which shows change in the values of assets.	Revaluation Account or Profit and Loss Adjustment Account
(2) Credit balance of Revaluation Account.	Profit on Revaluation Account
(3) Excess of actual capital over proportionate capital.	Surplus Capital
(4) Name of intangible asset having a value.	Goodwill
(5) Account which is debited when new partner brings cash for his share of goodwill.	Cash/Bank Account
(6) Account which is credited when goodwill is withdrawn by old partners.	Cash/Bank Account
(7) Profit and Loss Account appearing on the Asset side of a balance sheet.	Undistributed Loss
(8) Account which is opened to record the gains and losses on revaluation.	Profit and Loss Adjustment Account
(9) Change in the relationship between the partners.	Reconstitution of a Partnership
(10) An account which is credited when a new partner brings cash for his share of goodwill.	Goodwill A/c
(11) A fund created by the partnership firm out of profit as a precautionary measure.	General Reserve/Reserve Fund
(12) Ratio in which the old partners share the amount brought in by the new partner towards goodwill.	Sacrifice Ratio
(13) Ratio in which the Goodwill A/c may be written off after admission of a partner.	New Profit and Loss Ratio
(14) An account opened for Revaluation of Assets and Liabilities.	Profit and Loss Adjustment A/c or Revaluation A/c

Statement	Ans. (word/phrase/term)
(15) Debit balance of Revaluation Account.	Loss on revaluation of assets and liabilities
(16) An amount by which actual capital of a partner exceeds his Proportionate capital.	Surplus capital / Excess capital
(17) An amount by which propotionate capital of a partner exceeds his actual capital.	Deficit or Deficiency in capital

(C) * (1) State whether the following statements are True or False with reasons :

(1) New partner can bring capital in cash or kind.

Ans. This statement is **True**.

As per provision of partnership deed, when any person is admitted in the firm, he has to bring some amount as capital which can be in cash or in kind of assets to get rights in the assets and definite share in the future profit of the firm.

(2) When goodwill is paid privately to the partners, it is not recorded in the books.

Ans. This statement is **True**.

When goodwill is paid privately to the partners, by newly admitted person, then in such case no transaction takes place in the business and firm as such is not all benefited. Hence it is not recorded in the books of accounts.

(3) Gain ratio is calculated at the time of admission of partner.

Ans. This statement is **False**.

At the time of admission of a person, in the business, sacrifices are made by the old partners in favour of new partner. It means there is no question of any gain to the partners, so we can say that Gain ratio is not calculated at the time of admission of partner.

(4) Revaluation profit is distributed among all partners including new partner.

Ans. This statement is **False**.

Revaluation profit arises due to efforts and hard working of the old partners in the past and hence profit earned on revaluation of assets and liabilities at the time of admission of a person as a partner in the business belongs to old partners. So, such profit is not distributed among all partners including new partner. It distributed only among old partners.

(5) Change in relationship between the partners is called as Reconstitution of Partnership.

Ans. This statement is **True**.

When any person joins business as a partner, change in relationship takes place. The old agreement is terminated and new agreement is prepared. There is change in profit or loss sharing ratio and relationship of the partners which is known as Reconstitution of Partnership.

(6) New partner always bring his share of goodwill in cash.

Ans. This statement is **False**.

When new person is admitted in the partnership firm, the old partners surrender certain share in profit and give it to new partner. In exchange of that new partner is required to bring goodwill in cash or in kind. If he is unables to bring cash for goodwill, then Goodwill is raised and adjusted to new partner's capital A/c.

(7) When the goodwill is written off, goodwill account is debited.

Ans. This statement is **False**.

To write off goodwill means to decrease or wipe out the value of goodwill. When goodwill as an asset of business is raised, Goodwill A/c is debited in the books of Account. Conversely, when Goodwill is written off from the business, the Goodwill A/c is credited in the books of business.

(8) **New ratio minus old ratio is equal to sacrifice ratio.**

Ans. This statement is **False**.

When new partner is admitted, old partners have to sacrifice their profit share in favour of new partner and their old ratio gets reduced and whatever ratio left becomes new ratio. Hence, as per equation : New Ratio = Old Ratio – Sacrifice Ratio. By interchanging the terms, Sacrifice Ratio = Old Ratio – New Ratio.

(9) **Usually when a new partner is admitted in the firm, there will be an increase in the capital of the firm.**

Ans. This statement is **True**.

When a new partner is admitted in the firm, he brings his share of capital and goodwill, in cash or in kind, to enjoy the right of sharing the future profit and hence there will be an increase in the capital of the firm.

(10) **Cash / Bank Account is credited when goodwill is withdrawn by the old partners.**

Ans. This statment is **True**.

When a new partner bring his share of goodwill, old partners have right to withdraw it in cash. Therefore, when old partners withdraw the amount of goodwill, cash goes out from the firm and not goodwill. Hence Cash/Bank A/c is credited.

(2) (1) **The credit balance of Revaluation Account means loss on revaluation of assets and liabilities.**

Ans. This statement is **False**.

The credit balance of Revaluation Account means profit on revaluation of assets and liabilities. Revaluation A/c is nominal A/c. On credit side of this A/c all incomes and gains are recorded. The credit balance means credit amount is more than debit amount. Hence, credit balance of Revaluation Account is profit on revaluation of assets and liabilities.

(2) **If the Goodwill Account is raised up, Goodwill Account is debited.**

Ans. This statement is **True**.

As per the rules of Accountancy when value of any asset increases or raises, its account is debited in the books of account. Goodwill is an Asset.

(3) **On admission of a partner, the amount of goodwill brought in cash is credited to Goodwill Account.**

Ans. This statement is **True**.

When newly admitted partner brought cash for goodwill, Cash / Bank Account is debited as it comes in and Goodwill Account is credited and afterwards Goodwill Account will be debited when benefits of Goodwill are transferred to old partners' Capital Accounts.

(4) **New partner is entitled to receive share in general reserve of the existing partnership firm.**

Ans. This statement is **False**.

General reserve is the amount kept a side from the part and current profit earned by the business for future business development purpose. Hence on this amount, new partner has no right. Therefore new partner is not entitled to receive share in general reserve.

(5) On admission of a partner, the profit or loss on revaluation is distributed among the old partners.

Ans. This statement is **True**.

At the time of admission of a new partner, existing assets and liabilities of the business are to be revalued and whatever the profit or loss is there it is to be distributed among old partners only.

(6) The goodwill brought in by a new partner is shared by the old partner.

Ans. This statement is **True**.

Reputation of business measured in terms of money is known as goodwill and on this, old partners have right so when goodwill brought in by a new partner in the business, it is shared by the old partner.

(7) New ratio minus old ratio is equal to gain ratio.

Ans. This statement is **True**.

At the time of Retirement or Death of a partner, existing partners may have some gain, which is found out by Gain ratio = New ratio – Old ratio.

(8) When a partner takes away any asset from the business, his account will be debited.

Ans. This statement is **True**.

When a partner takes away any asset from the business, Asset Account will be credited and Partner's Account will be debited as it decreases partner's capital.

(9) Average profit means profit which is earned over and above the normal profit.

Ans. This statement is **False**.

When firm earns extra profit over and above the normal profit because of reputation of firm then it is known as super profit and not average profit.

* (D) Find odd one :

(1) General reserve, Creditors, Machinery, Capital

(2) Decrease in Furniture, Patents written off, Increase in Bills payable, R.D.D. written off

(3) Super profit method, Valuation method, Average profit method, Fluctuating capital method

Ans. (1) Machinery (2) R.D.D. written off (3) Fluctuating capital method

* (E) Calculate the following :

(1) A and B are partners in a firm sharing profit and losses in the ratio of 1 : 1. C is admitted. A surrenders $\frac{1}{4}$th share and B surrenders $\frac{1}{5}$th of his share in favour of C. Calculate new profit sharing ratio.

Solution : Old ratio of A and B = 1 : 1 or $\frac{1}{2} : \frac{1}{2}$

A's sacrifice = $\frac{1}{4} \times \frac{1}{2} = \frac{1}{8}$

B's sacrifice = $\frac{1}{5} \times \frac{1}{2} = \frac{1}{10}$

Sacrificing ratio of A and B = $\frac{1}{8} : \frac{1}{10}$ = 5 : 4

C's share = A's share + B's share

$$= \frac{1}{8} + \frac{1}{10} = \frac{5+4}{40} = \frac{9}{40}$$

A's new share = Old ratio – Sacrifice ratio

$$= \frac{1}{2} - \frac{1}{8} = \frac{4-1}{8} = \frac{3}{8}$$

B's new share = Old ratio – Sacrifice ratio

$$= \frac{1}{2} - \frac{1}{10} = \frac{5-1}{10} = \frac{4}{10}$$

Therefore, New ratio of A, B and C = $\frac{3}{8} : \frac{4}{10} : \frac{9}{40}$

= 15 : 16 : 9

(Making denominator equal)

(2) Anika and Radhika are partners sharing profit in the ratio of 5 : 1. They decide to admit Sanika in the firm for $\frac{1}{5}$th share. Calculate Sacrifice ratio of Anika and Radhika.

Solution : Balance – 1 = 1 – share of new partner

$$= 1 - \frac{1}{5}$$

$$= \frac{4}{5} \text{ (Remaining share)}$$

New ratio = Old ratio × Balance of 1

Anika's New ratio = $\frac{5}{6} \times \frac{4}{5} = \frac{20}{30}$

Radhika's New ratio = $\frac{1}{6} \times \frac{4}{5} = \frac{4}{30}$

Sanika's New ratio = $\frac{1}{5} \times \frac{6}{6} = \frac{6}{30}$ (Making denominator equal)

∴ New Profit and Loss ratio = $\frac{20}{30} : \frac{4}{30} : \frac{6}{30}$

= 20 : 4 : 6 i.e. 10 : 2 : 3

Sacrifice ratio = old ratio – New ratio

Anika's Sacrifice ratio = $\frac{5}{6} - \frac{20}{30} = \frac{25-20}{30} = \frac{5}{30}$

Radhika's Sacrifice ratio = $\frac{1}{6} - \frac{4}{30} = \frac{5-4}{30} = \frac{1}{30}$

∴ Sacrifice ratio = $\frac{5}{30} : \frac{1}{30}$ = 5 : 1

(3) Pramod and Vinod are partners sharing profits and losses in the ratio of 3 : 2. After admission of Ramesh the New ratio of Pramod, Vinod and Ramesh is 4 : 3 : 2. Find out the Sacrifice ratio.

Solution : Sacrifice Ratio = Old ratio – New ratio

Pramod's Sacrifice ratio = $\frac{3}{5} - \frac{4}{9} = \frac{27-20}{45} = \frac{7}{45}$

Vinod's Sacrifice ratio = $\frac{2}{5} - \frac{3}{9} = \frac{18-15}{45} = \frac{3}{45}$

∴ Sacrifice ratio = $\frac{7}{45} : \frac{3}{45}$ = 7 : 3.

(F) * (1) Answer in one sentence only :

(1) What is Revaluation Account ?

Ans. An account opened and operated by any partnership firm for recording changes in the value of assets and liabilities and to ascertain profit or loss made on revaluation of assets and liabilities is called Revaluation Account.

(2) What is meant by Reconstitution of Partnership ?

Ans. Reconstitution of partnership means change in the relationship between / among partners and in the form of partnership.

(3) Why is new partner admitted ?

Ans. A new partner is admitted to the existing partnership firm to increase the capital resources of the firm and to secure advantages of a new entrant's skill and business connections, i.e. goodwill.

(4) What is sacrifice ratio ?

Ans. A ratio which is surrendered or given up by the old partners in favour of a newly admitted partner is called sacrifice ratio.

(5) What do you mean by raising the goodwill at the time of admission of a new partner ?

Ans. Raising the Goodwill at the time of admission of a new partner means debiting Goodwill Account upto the value it is raised and crediting. Old partners' Capital Accounts in their old ratio in the books of the firm.

(6) What is super profit method of calculation of goodwill ?

Ans. Super profit method of calculation of Goodwill is a method in which Goodwill is valued at certain number of years' purchases of the super profit of the partnership firm.

(7) When is the ratio of sacrifice calculated for distribution of goodwill ?

Ans. The ratio of sacrifice is calculated when the benefits of goodwill contributed by a new partner in cash is to be transferred to existing partners' Capital / Current Account.

(8) What is the treatment of accumulated profits at the time of admission of a partner ?

Ans. Accumulated profits at the time of admission of a partner are transferred to old partners' Capital/ Current Accounts in their old profit sharing ratio.

(9) State the ratio in which old partner's Capital A/c will be credited for goodwill when the new partner does not bring his share of goodwill in cash.

Ans. When the new partner does not bring his share of goodwill in cash, Goodwill is raised upto certain value and credited to old partners' Capital/Current A/cs in their old profit sharing ratio.

(10) What does the excess of debit over credits in Profit and Loss Adjustment Account indicate ?

Ans. The excess of debit over credits in Profit and Loss Adjustment Account indicates loss on revaluation of assets and liabilities.

(2) **(1) What is meant by admission of a partner?**

Ans. A process in which a new person is taken into the partnership firm as a partner is called admission of a partner.

(2) In what proportion is general reserve distributed among the old partners?

Ans. On admission of a new partner, the amount of general reserve is distributed among the old partners in their old profit sharing ratio.

(3) How is sacrifice ratio calculated?

Ans. Sacrifice ratio is calculated by deducting new ratio of the partner from his old ratio.

Formula : Sacrifice ratio = Old ratio – New ratio.

(4) What does credit balance on Profit and Loss Adjustment A/c or Revaluation A/c show?

Ans. A credit balance on Profit and Loss Adjustment A/c or Revaluation A/c shows profit on revaluation of assets and liabilities.

(5) In which ratio do the old partners share the profit or loss made on revaluation of assets and liabilities of the firm?

Ans. The profit or loss made on revaluation of assets and liabilities of the firm is shared by old partners in their old profit sharing ratio.

(6) What is General Reserve or Reserve Fund?

Ans. A fund created by keeping aside a part of profit every year to provide timely finance for unforeseen contingencies like fire, flood, earthquake, change in Government policy, etc. is called General Reserve or Reserve Fund.

(7) Who share the amount of general reserve on admission of a new partner?

Ans. On admission of a new partner, the amount of general reserve is shared by old partners only.

(8) On what single factor does the valuation of goodwill primarily depend?

Ans. The most important factor of valuation of goodwill is the profit earning capacity of the firm.

* (G) Complete the table :

(1) $\boxed{\phantom{\text{Average Profit}}} = \frac{\text{Total Profit}}{\text{Number of years}}$

(2) Normal Profit = $\boxed{\phantom{\text{Capital employed}}} \times \frac{\text{NRR}}{100}$

(3) Stock shown in Balance Sheet → Stock undervalued by 20 % → Cost of Stock

$\boxed{\text{₹ 1,60,000}}$ $\boxed{\phantom{\text{₹ 40,000}}}$ $\boxed{\phantom{\text{₹ 2,00,000}}}$

Solution :

(1) $\boxed{\text{Average Profit}} = \frac{\text{Total Profit}}{\text{Number of years}}$

(2) Normal Profit = $\boxed{\text{Capital employed}} \times \frac{\text{NRR}}{100}$

(3) Stock shown in Balance Sheet → Stock undervalued by 20 % → Cost of Stock

₹ 1,60,000 → $\boxed{\text{₹ 40,000}}$ → $\boxed{\text{₹ 2,00,000}}$

SOLVED PROBLEMS

Q. 1. The Balance Sheet of Anal and Arvind who shared the profits in the ratio of 2 : 1 is as under :

Balance Sheet as on 31st March, 2019

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital Accounts : Anal		67,000	Leasehold Property		10,000
Arvind		60,000	Livestock		3,300
Creditors		25,500	Loose Tools		45,100
Rent Outstanding		5,000	Stock		42,400
Reserve Fund		3,600	Debtors	24,000	
Current A/c : Anal		1,400	Less : R.D.D.	1,000	23,000
			Bank		37,700
			Current A/c : Arvind		1,000
		1,62,500			1,62,500

On 1st April, 2019 Zalak was admitted as 1/4th partner on the following terms :

(1) She brings equipments of ₹ 40,000 as her capital.

(2) Firm's goodwill is valued at ₹ 72,000 and Zalak agreed to bring her share in firm's goodwill by cheque.

(3) R.D.D. should be maintained at 7.5 % on debtors.

(4) Increase the value of livestock by ₹ 1,300 and write off loose tools by 20 %.

(5) Outstanding rent paid ₹ 4,520 in full settlement.

Pass necessary journal entries to record the above scheme of admission.

Solution : **Journal entries in the books of partnership firm**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2019 April 1	Reserve Fund A/c Dr. To Anal's Current A/c To Arvind's Current A/c (Being balance in reserve fund transferred to old partner's Current Accounts in old ratio)		3,600	 2,400 1,200
1	Equipment A/c Dr. To Zalak's Capital A/c (Being capital contributed in the form of equipment)		40,000	 40,000
1	Bank A/c Dr. To Goodwill A/c (Being goodwill brought in by Zalak by cheque)		18,000	 18,000
1	Goodwill A/c Dr. To Anal's Current A/c To Arvind's Current A/c (Being goodwill credited to old partners' Current A/cs in their sacrifice ratio)		18,000	 12,000 6,000
1	Profit and Loss Adjustment A/c Dr. To R.D.D. A/c To Loose Tools A/c (Being R.D.D. raised and loose tools written off by 20 %)		9,820	 800 9,020
1	Oustanding Rent A/c Dr. To Bank A/c To Profit and Loss Adjustment A/c (Discount) (Being outstanding rent paid under discount)		5,000	 4,520 480
1	Livestock A/c Dr. To Profit and Loss Adjustment A/c (Being the value of livestock increased by ₹ 1,300)		1,300	 1,300
1	Anal's Current A/c Dr. Arvind's Current A/c Dr. To Profit and Loss Adjustment A/c (Being loss on revaluation transferred to old partners' Current Accounts in their old ratio)		5,360 2,680	 8,040

Working Notes :

(1) To find out Profit or Loss made on revaluation of assets and liabilities, Profit and Loss Adjustment A/c is prepared :

Dr. **Profit and Loss Adjustment Account** **Cr.**

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To R.D.D. A/c		800	By Rent A/c (Discount earned)		480
To Loose Tools A/c		9,020	By Livestock A/c		1,300
			By Partners' Current A/cs : (Loss)		
			Anal ($\frac{2}{3}$)	5,360	
			Arvind ($\frac{1}{3}$)	2,680	8,040
		9,820			9,820

(2) Discount earned on payment of outstanding Rent = 5,000 – 4,520 = ₹ 800. It is credited to Profit and Loss Adjustment A/c.

(3) Increase in RDD = New RDD – Old RDD = 7.5 % on 24,000 – 1,000.

= 1,800 – 1,000 = ₹ 800. It is debited to Profit and Loss Adjustment A/c

Q. 2. Mahesh and Kamlesh are partners in a business sharing profits and losses in the ratio of 2 : 1 respectively. Their Balance Sheet as on 31st March, 2019 is as follows :

Balance Sheet as on 31st March, 2019

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital A / cs : Mahesh	1,00,000		Building		60,000
Kamlesh	48,000	1,48,000	Machinery		20,000
Creditors		1,14,000	Furniture		19,000
Bills Payable		40,000	Debtors	80,000	
Reserve Fund		18,000	Less : R.D.D.	2,000	78,000
			Stock		60,000
			Bills Receivable		15,200
			Cash at Bank		67,800
		3,20,000			3,20,000

They admitted Kiran on 1st April, 2019 as a partner on the following terms :

(1) Kiran will bring ₹ 60,000 as his capital for 1/4th share in future profit and ₹ 24,000 as goodwill which will be withdrawn by old partners.

(2) Stock and Machinery are to be depreciated by 10 %.

(3) R.D.D. is to be maintained at 5 % on debtors.

(4) Building is to be appreciated by 20 % and Furniture is revalued at ₹ 20,000.

Prepare Profit and Loss Adjustment Account, Partners' Capital Accounts and Balance Sheet of the new firm.

Solution :

In the books of partnership firm

Dr. **Profit and Loss Adjustment Account** **Dr.**

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Machinery A/c		2,000	By Building A/c		12,000
To Stock A/c		6,000	By Furniture A/c		1,000
To R.D.D. A/c		2,000			
To Partners' Capital A/cs :					
(Profit)					
Mahesh	2,000				
Kamlesh	1,000	3,000			
		13,000			13,000

Dr. **Partners' Capital Accounts** **Cr.**

Particulars	Mahesh (₹)	Kamlesh (₹)	Kiran (₹)	Particulars	Mahesh (₹)	Kamlesh (₹)	Kiran (₹)
To Bank A/c	16,000	8,000	–	By Balance b/d	1,00,000	48,000	–
To Balance c/d	1,14,000	55,000	60,000	By Reserve Fund	12,000	6,000	–
				By Bank A/c	–	–	60,000
				By Goodwill A/c	16,000	8,000	–
				By Profit and Loss Adjustment A/c (Share in Profit)	2,000	1,000	–
	1,30,000	63,000	60,000		1,30,000	63,000	60,000
				By Balance b/d	1,14,000	55,000	60,000

Balance Sheet as on 1st April, 2019

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Partners' Capital A/cs :			Building	60,000	
Mahesh	1,14,000		Add : Appreciation @ 20 %	12,000	72,000
Kamlesh	55,000		Machinery	20,000	
Kiran	60,000	2,29,000	Less : Depreciation @ 10 %	2,000	18,000
Creditors		1,14,000	Furniture	19,000	
Bills Payable		40,000	Add : Appreciation	1,000	20,000
			Stock	60,000	
			Less : Reduction in Value @ 10 %	6,000	54,000
			Bills Receivable		15,200
			Debtors	80,000	
			Less : R.D.D. @ 5 %	4,000	76,000
			Cash at Bank		1,27,800
		3,83,000			3,83,000

Working Note :

Dr. **Bank A/c** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	67,800	By Mahesh's Capital A/c	16,000
To Kiran's Capital A/c	60,000	By Kamlesh's Capital A/c	8,000
To Goodwill A/c	24,000	By Balance c/d	1,27,800
	1,51,800		1,51,800

Dr. **Goodwill A/c** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Mahesh's Capital A/c	16,000	By Bank A/c	24,000
To Kamlesh's Capital A/c	8,000		
	24,000		24,000

Q. 3. Akash and Aman are partners in a firm sharing profits and losses in the ratio 3 : 2. Their Balance Sheet as on 31st March, 2019 was as follows :

Balance Sheet as on 31st March, 2019

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital A/cs :		Furniture	3,150
Akash	75,000	Stock	43,050
Aman	75,000	Land and Building	52,500
General Reserve	15,000	Plant and Machinery	73,500
Sundry Creditors	90,000	Sundry Debtors	94,500
Bills Payable	25,500	Cash	13,800
	2,80,500		2,80,500

They agreed to admit Raj in their partnership on 1st April, 2019, on the following terms :

(1) Raj should bring ₹ 2,250, as his share of goodwill in the firm and ₹ 3,000 as his capital.

(2) Reserve for doubtful debts is to be provided @ 5% on debtors.

(3) Land and building is to be depreciated at 10% p.a.

(4) Plant and Machinery is to be depreciated @ 5% and stock is to be depreciated @ 10% p.a.

(5) The new profit sharing ratio will be 2 : 1 : 1.

Prepare : (a) Revaluation Account (b) Partners' Capital Accounts (c) New Balance Sheet of the firm.

Solution : **In the books of Partnership Firm**

Dr. **Revaluation Account** **Cr.**

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To R.D.D. A/c (Newly created)		4,725	By Partners' Capital A/cs : (Loss transferred)		
To Land and Building A/c (Depreciation)		5,250	Akash	10,773	
To Plant and Machinery A/c (Depreciation)		3,675	Aman	7,182	17,955
To Stock A/c (Depreciation)		4,305			
		17,955			17,955

Dr. **Partners' Capital Accounts** **Cr.**

Particulars	Akash (₹)	Aman (₹)	Raj (₹)	Particulars	Akash (₹)	Aman (₹)	Raj (₹)
To Revaluation A/c (loss)	10,773	7,182	–	By Balance b/d	75,000	75,000	–
				By General Reserve	9,000	6,000	–
To Balance c/d	74,127	75,168	3,000	By Cash A/c (Capital contribution)	–	–	3,000
				By Goodwill A/c (Benefits transferred)	900	1,350	–
	84,900	82,350	3,000		84,900	82,350	3,000
				By Balance b/d	74,127	75,168	3,000

Balance Sheet as on 1st April, 2019

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Sundry Creditors		90,000	Land and Building	52,500	
Bills Payable		25,500	Less : Dep. @ 10 %	5,250	47,250
Capital A/cs :			Plant and Machinery	73,500	
Akash	74,127		Less : Dep. @ 5 %	3,675	69,825
Aman	75,168		Furniture		3,150
Raj	3,000	1,52,295	Stock	43,050	
			Less : Dep. @ 10 %	4,305	38,745
			Sundry Debtors	94,500	
			Less : R.D.D. @ 5 %	4,725	89,775
			Cash		19,050
		2,67,795			2,67,795

Working Notes :

(1) Calculation of sacrifice ratio of old partners :

Old ratio : Akash = $\frac{3}{5}$ and Aman = $\frac{2}{5}$ New ratio : Akash = $\frac{2}{4}$ and Aman = $\frac{1}{4}$

Sacrifice ratio = Old ratio – New ratio

Akash's sacrifice ratio = $\frac{3}{5} - \frac{2}{4} = \frac{12-10}{20} = \frac{2}{20}$

Aman's sacrifice ratio = $\frac{2}{5} - \frac{1}{4} = \frac{8-5}{20} = \frac{3}{20}$

Sacrifice ratio of Akash and Aman = $\frac{2}{20} : \frac{3}{20}$ i.e. 2 : 3.

Benefits of Goodwill of ₹ 2,250 distributed and transferred to Akash's Capital A/c and Aman's Capital A/c in their sacrifice ratio (which is 2 : 3). Goodwill credited to Akash's Capital = 2,250 × $\frac{2}{3+2}$ = ₹ 900 and Aman's Capital = 2,250 × $\frac{3}{5}$ = ₹ 1,350.

(2) Debit balance of Revaluation of ₹ 17,955 indicates Loss on revaluation. Division of Revaluation Loss :

Akash = 17,955 × $\frac{3}{3+2}$ = ₹ 10,773 and Aman = 17,955 × $\frac{2}{5}$ = ₹ 7,182.

(3) Balance in Cash A/c at the end = 13,800 + 3,000 + 2,250 = ₹ 19,050. It is shown on the Assets side of Balance sheet.

(4) R.D.D. = 5 % on value of Debtors = $\frac{5}{100}$ × 94,500 = ₹ 4,725.

Amount of R.D.D. is first debited to Revaluation A/c and then deducted from the value of Debtors on the Assets side of Balance Sheet.

(5) Division of General Reserve : Akash = $\frac{3}{5}$ × 15,000 = ₹ 9,000 and Aman = $\frac{2}{5}$ × 15,000 = ₹ 6,000.

SOLUTIONS TO TEXTUAL PROBLEMS

*** Q. 1. Vikram and Pradnya share profits and losses in the ratio 2 : 3 respectively. Their Balance Sheet as on 31st March, 2018 was as under :**

Balance Sheet as on 31st March, 2018

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	1,05,000	Cash	7,500
Capitals :		Land & Building	37,500
Vikram	75,000	Plant	45,000
Pradnya	75,000	Furniture	3,000
		Stock	75,000
		Debtors	87,000
	2,55,000		2,55,000

They agreed to admit Avani as a partner on 1st April, 2018 on the following terms :

(1) Avani shall have 1/4th share in future profits.

(2) He shall bring ₹ 37,500 as his capital and ₹ 30,000 as his share of goodwill.

(3) Land and building to be valued at ₹ 45,000 and furniture to be depreciated by 10 %.

(4) Provision for bad and doubtful debts is to be maintained at 5 % on the Sundry Debtors.

(5) Stock to be valued ₹ 82,500.

The Capital A/c of all partners to be adjusted in their new profit and loss ratio and excess amount be transferred to their loan accounts.

Prepare Profit and Loss Adjustment Account, Capital Accounts and New Balance Sheet.

Solution :

In the books of Partnership Firm

Dr. **Profit and Loss Adjustment Account** **Cr.**

Particulars		Amount (₹)	Particulars	Amount (₹)
To R.D.D. A/c		4,350	By Land & Building A/c	7,500
To Furniture A/c (Depreciation)		300	By Stock A/c	7,500
To Profit on Revaluation				
Vikram	4,140			
Pradnya	6,210	10,350		
		15,000		15,000

Dr. **Partners' Capital Accounts** **Cr.**

Particulars	Vikram (₹)	Pradnya (₹)	Avani (₹)	Particulars	Vikram (₹)	Pradnya (₹)	Avani (₹)
To Partners' Loan A/c	46,140	31,710		By Balance b/d	75,000	75,000	–
To Balance c/d	45,000	67,500	37,500	By Bank A/c	–	–	37,500
				By Revaluation A/c (Profit)	4,140	6,210	–
				By Goodwill A/c	12,000	18,000	–
	91,140	99,210	37,500		91,140	99,210	37,500

Balance Sheet as on 1st April, 2018

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital Accounts :			Cash		75,000
Vikram	45,000		Land & Building	37,500	
Pradnya	67,500		Add : Appreciation	7,500	45,000
Avani	37,500	1,50,000	Furniture	3,000	
Creditors		1,05,000	Less : Depreciation	300	2,700
Partners' Loan A/c :			Plant		45,000
Vikram	46,140		Stock	75,000	
Pradnya	31,710	77,850	Add : Appreciation	7,500	82,500
			Debtors	87,000	
			Less : R.D.D. (5 %)	4,350	82,650
		3,32,850			3,32,850

Working Notes :

(1) Calculation of new profit ratio = 1 – share of new partner

$$= 1 - \frac{1}{4}$$

$$= \frac{3}{4} \text{ Remaining share.}$$

New ratio = old ratio × balance 1 (Remaining share)

Vikram's new ratio $= \frac{2}{5} \times \frac{3}{4} = \frac{6}{20}$

Pradnya's new ratio $= \frac{3}{5} \times \frac{3}{4} = \frac{9}{20}$

Avani's ratio $= \frac{1}{4} = \frac{1}{4} \times \frac{5}{5} = \frac{5}{20}$

∴ New profit sharing ratio = 6 : 9 : 5.

Capital amount adjusted in their new profit and loss ratio :

Total Capital of the Partnership Firm = (Reciprocal of New Partner's Share) × (Capital of New Partner)

$$= \left(\text{Reciprocal of } \frac{1}{4}\right) \times 37{,}500 = 4 \times 37{,}500 = ₹\ 1{,}50{,}000$$

Vikram's Capital balance = (Vikram's New Ratio) × (Total Capital of the firm)

$$= \frac{6}{20} \times 1{,}50{,}000 = ₹\ 45{,}000$$

Pradnya's Capital balance $= \frac{9}{20} \times 1{,}50{,}000 = ₹\ 67{,}500$

*** Q. 2. Amalendu and Sameer share profits and losses in the ratio 3 : 2 respectively. Their Balance Sheet as on 31st March, 2017 was as under :**

Balance Sheet as on 31st March, 2017

Liabilities	Amount (₹)	Assets	Amount (₹)
Sundry Creditors	10,000	Cash at Bank	12,000
Amlendu Capital	60,000	Sundry Debtors	24,000
Sameer Capital	40,000	Land & Building	50,000
General Reserve	20,000	Stock	16,000
		Plant and Machinery	20,000
		Furniture & Fixture	8,000
	1,30,000		1,30,000

On 1st April, 2017 they admit Paresh into partnership. The term being that :

(1) He shall pay ₹ 16,000 as his share of Goodwill 50 % amount of Goodwill shall be withdrawn by the old partners.

(2) He shall have to bring in ₹ 20,000 as his Capital for 1/4 share in future profits.

(3) For the purpose of Paresh's admission it was agreed that the assets would be revalued as follows :

(A) Land and Building is to be valued at ₹ 60,000.

(B) Plant and Machinery to be valued at ₹ 16,000.

(C) Stock valued at ₹ 20,000 and Furniture and Fixtures at ₹ 4,000.

(D) A Provision of 5 % on Debtors would be made for Doubtful Debts.

Pass the necessary Journal Entries in the books of a new firm.

Solution :

Journal entries in the books of Partnership Firm

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2017 April 1	General Reserve A/c Dr.		20,000	
	To Amalendu's Capital A/c			12,000
	To Sameer's Capital A/c			8,000
	(Being general reserve distributed among old partners)			

	Profit and Loss Adjustment A/c Dr.		9,200	
	To Plant and Machinery A/c			4,000
	To Furniture & Fixture A/c			4,000
	To R.D.D. A/c			1,200
	(Being decrease in the value of assets and reserve for doubtful debts.)			
	Land and Building A/c Dr.		10,000	
	Stock A/c Dr.		4,000	
	To Profit and Loss Adjustment A/c			14,000
	(Being appreciation in the value of assets)			
	Profit and Loss Adjustment A/c Dr.		4,800	
	To Amalendu's Capital A/c			2,880
	To Sameer's Capital A/c			1,920
	(Being profit on revaluation distributed in profit sharing ratio)			
	Cash / Bank A/c Dr.		20,000	
	To Paresh's Capital A/c			20,000
	(Being amount brought in for capital by Paresh)			
	Cash / Bank A/c Dr.		16,000	
	To Goodwill A/c			16,000
	(Being amount brought in for goodwill by Paresh)			
	Goodwill A/c Dr.		16,000	
	To Amalendu's Capital A/c			9,600
	To Sameer's Capital A/c			6,400
	(Being goodwill distributed among old partners)			
	Amalendu's Capital A/c Dr.		4,800	
	Sameer's Capital A/c Dr.		3,200	
	To Bank A/c			8,000
	(Being half of the goodwill amount withdrawn by old partners)			

Working Notes :

Dr. **Goodwill Account** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Amalendu's Capital A/c	9,600	By Cash / Bank A/c	16,000
To Sameer's Capital A/c	6,400		
	16,000		16,000

Dr. **Profit and Loss Adjustment Account** **Cr.**

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Plant and Machinery A/c		4,000	By Land & Building A/c		10,000
To Furniture and Fixture A/c		4,000	By Stock A / c		4,000
To R.D.D. Debts A/c		1,200			
To Profit on Revaluation Transferred to Partners' Capital A/cs :					
Amalendu	2,880				
Sameer	1,920	4,800			
		14,000			14,000

* **Q. 3. Vasu and Viraj share profits and losses in the ratio of 3 : 2 respectively. Their Balance Sheet as on 31st March, 2019 was as under :**

Balance Sheet as on 31st March, 2019

Liabilities	Amount (₹)	Assets	Amount (₹)
Sundry Creditors	45,000	Cash at Bank	750
General Reserve	30,000	Sundry Debtors	66,750
Capital :		Stock	25,500
Vasu	1,08,000	Investment	36,000
Viraj	72,000	Plant	90,000
		Building	36,000
	2,55,000		2,55,000

They admit Hari into partnership on 1 – 4 – 2019. The terms being that :

(1) He shall have to bring in ₹ 60,000 as his Capital for 1/4 share in future profits.

(2) Value of Goodwill of the firm is to be fixed at the average profits for the last three years.

The Profit were :

2009–10	₹ 48,000
2010–11	₹ 81,000
2011–12	₹ 73,500

Hari is unable to bring the value of the Goodwill in cash. It is decided to raise the Goodwill in the books of accounts.

(3) Reserve for Doubtful debts is to be created at ₹ 1,500.

(4) Clsoing stock is valued at ₹ 22,500.

(5) Plant and Building is to be depreciated by 5 %.

Prepare Profit and Loss Adjustment A/c, Capital Accounts of Partners and Balance Sheet of the new firm.

Solution : In the books of the firm ....

Dr. **Profit and Loss Adjustment Account** **Cr.**

Particulars		Amount (₹)	Particulars		Amount (₹)
To R.D.D. (New) A/c		1,500	By Loss on Revaluation		
To Stock A/c		3,000	Transferred to Partners' Capital A /cs :		
To Depreciation A/cs :			Vasu	6,480	
Plant	4,500		Viraj	4,320	10,800
Building	1,800	6,300			
		10,800			10,800

Dr. **Partners' Capital Accounts** **Cr.**

Particulars	Vasu (₹)	Viraj (₹)	Hari (₹)	Particulars	Vasu (₹)	Viraj (₹)	Hari (₹)
To Profit and Loss Adjustment A/c (Loss)	6,480	4,320	–	By Balance b / d	1,08,000	72,000	–
				By Cash / Bank A/c	–	–	60,000
To Balance c / d	1,60,020	1,06,680	60,000	By Goodwill A/c	40,500	27,000	–
				By General Reserve A/c	18,000	12,000	–
	1,66,500	1,11,000	60,000		1,66,500	1,11,000	60,000

Balance Sheet as on 1st April 2019

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital A/cs :			Cash		60,750
Vasu	1,60,020		Sundry Debtors	66,750	
Viraj	1,06,680		Less : R.D.D. (New)	1,500	65,250
Hari	60,000	3,26,700	Stock	25,500	
Sundry Creditors		45,000	Less : Depreciation	3,000	22,500
			Investments		36,000
			Plant	90,000	
			Less : Depreciation	4,500	85,500
			Building	36,000	
			Less : Depreciation	1,800	34,200
			Goodwill		67,500
		3,71,700			3,71,700

Working Notes :

(1) Average Profit $= \frac{\text{Total Profit}}{\text{No. of years}}$

$$= \frac{48{,}000 + 81{,}000 + 73{,}500}{3} = ₹\ 67{,}500 \quad \therefore \text{ Goodwill value} = ₹\ 67{,}500$$

Vasu's share in Goodwill = ₹ 40,500 $\left(67{,}500 \times \frac{3}{5}\right)$

Viraj's share in Goodwill = ₹ 27,000 $\left(67{,}500 \times \frac{2}{5}\right)$

(2) Hari is not able to bring share in goodwill and it is decided to raise the goodwill in the book. Therefore, Goodwill is recorded in the Asset side ₹ 67,500.

* **Q. 4. Mr Deep & Mr Karan were in partnership sharing profits & losses in the proportion of 3 : 1 respectively. Their Balance Sheet on 31st March, 2018 stood as follows :**

Balance Sheet as on 31st March, 2018

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Sundry Creditors		40,000	Cash		40,000
Bill-Payable		10,000	Sundry Debtors		32,000
Bank Overdraft		11,000	Land & Building		16,000
Capital A/cs :			Stock		20,000
Deep	60,000		Plant and Machinery		30,000
Karan	20,000	80,000	Furniture		11,000
General Reserve		8,000			
		1,49,000			1,49,000

They admit Shubham into Partnership on 1 April, 2018. The terms being that :

(1) He shall have to bring in ₹ 20,000 as his capital for 1/5 share in future profits & ₹ 10,000 as his share of Goodwill.

(2) A provision for 5 % doubtful debts to be created on sundry debtors.

(3) Furniture to be depreciated by 20 %.

(4) Stock should be appreciated by 5 % and Building be appreciated by 20 %.

(5) Capital A/c of all partners be adjusted in their new profit sharing ratio through cash account.

Prepare Profit and Loss Adjustment A/c, Partners' Capital A/c, Balance Sheet of new firm.

Solution : **In the books of the firm ....**

Dr. **Profit and Loss Adjustment Account** **Cr.**

Particulars		Amount (₹)	Particulars	Amount (₹)
To R.D.D. (New) A/c		1,600	By Stock A/c	1,000
To Depreciation A/c – Furniture		2,200	By Building A/c	3,200
To Profit on Revaluation Transferred to Partners' Capital A/cs :				
Deep	300			
Karan	100	400		
		4,200		4,200

Dr. **Partners' Capital Accounts** **Cr.**

Particulars	Deep (₹)	Karan (₹)	Shubham (₹)	Particulars	Deep (₹)	Karan (₹)	Shubham (₹)
To Cash A/c	13,800	4,600	–	By Balance b/d	60,000	20,000	–
To Balance c/d	60,000	20,000	20,000	By Cash/Bank A/c	–	–	20,000
				By Goodwill A/c	7,500	2,500	–
				By Revaluation on A/c (Profit)	300	100	–
				By General Reserve A/c	6,000	2,000	–
	73,800	24,600	20,000		73,800	24,600	20,000

Balance Sheet as on 1st April, 2018

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital A/cs :			Cash		51,600
Deep	60,000		Sundry Debtors	32,000	
Karan	20,000		Less : R.D.D.	1,600	30,400
Shubham	20,000	1,00,000	Land and Building	16,000	
Sundry Creditors		40,000	Add : Appreciation	3,200	19,200
Bills Payable		10,000	Stock	20,000	
Bank Overdraft		11,000	Add : Appreciation	1,000	21,000
			Furniture	11,000	
			Less : Depreciation	2,200	8,800
			Plant and Machinery		30,000
		1,61,000			1,61,000

Working Note :

Calculation of new ratio : Balance of 1 = 1 – share of new partner

$$= 1 - \frac{1}{5}$$

$$= \frac{4}{5} \text{ (Remaining share)}$$

New ratio = Old ratio × balance 1 (Remaining share)

Deep's new ratio = $\frac{3}{4} \times \frac{4}{5} = \frac{3}{5}$

Karan's new ratio = $\frac{1}{4} \times \frac{4}{5} = \frac{1}{5}$

Shubham's new ratio = $\frac{1}{5} = \frac{1}{5}$

∴ New profit and loss sharing ratio = 3 : 1 : 1

Capital amount to be adjusted in Partner's new profit and loss ratio :

Total Capital of the firm = (Reciprocal of New partner's share) × (New partner's capital)

= 5 × 20,000 = ₹ 1,00,000

Deep's capital balance = $\frac{3}{5}$ × 1,00,000 = ₹ 60,000

Karan's capital balance = $\frac{1}{5}$ × 1,00,000 = ₹ 20,000

Dr. **Cash Account** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	40,000	By Deep's Capital A/c	13,800
To Shubham's Capital A/c	20,000	By Karan's Capital A/c	4,600
To Goodwill A/c	10,000	By Balance c/d	51,600
	70,000		70,000

*** Q. 5. Mr Kishor & Mr Lal were in partnership sharing profits & losses in the proportion of 3/4 and 1/4 respectively.**

Balance Sheet as on 31st March, 2018

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Creditors		1,20,000	Land and Building		75,000
General Reserve		12,000	Furniture		6,000
Capital A/cs :			Stock		60,000
Kishor	90,000		Debtors		60,000
Lal	48,000	1,38,000	Bills Receivable		39,000
			Cash at Bank		30,000
		2,70,000			2,70,000

They decided to admit Ram on 1 April, 2018 on following terms :

(1) He should be given 1/5th share in profit and for that he brought in ₹ 60,000 as capital through RTGS.

(2) Goodwill should be raised at ₹ 60,000.

(3) Appreciate Land and Building by 20 %.

(4) Furniture and Stock are to be depreciated by 10 %.

(5) The capitals of all partners should be adjusted in their new profit sharing ratio through Bank A/c.

Pass necessary Journal Entries in the books of the partnership firm and a Balance Sheet of new firm.

Solution :

Journal entries in the books of the firm

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2018	General Reserve A/c Dr.		12,000	
April 1	To Mr. Kishor's Capital A/c			9,000
	To Mr. Lal's Capital A/c			3,000
	(Being general reserve distributed among old partners)			
1	Profit and Loss Adjustment A/c Dr.		6,600	
	To Furniture A/c			600
	To Stock A/c			6,000
	(Being decrease in the value of assets)			

1	Land and Building A/c Dr. To Profit and Loss Adjustment A/c (Being increase in the value of assets)		15,000	 15,000
1	Profit and Loss Adjustment A/c Dr. To Mr Kishor's Capital A/c To Mr Lal's Capital A/c (Being profit on revaluation distributed in profit sharing ratio)		8,400	 6,300 2,100
1	Bank A/c Dr. To Ram's Capital A/c (Being capital amount brought in through RTGS)		60,000	 60,000
1	Goodwill A/c Dr. To Kishor's Capital A/c To Lal's Capital A/c (Being the goodwill raised and transferred to capital A/cs in their old ratio)		60,000	 45,000 15,000
1	Bank A/c Dr. To Kishor's Capital A/c (Being deficit in capital account settled in cash by Kishor)		29,700	 29,700
1	Lal's Capital A/c Dr. To Bank A/c (Being surplus capital amount paid to Lal)		8,100	 8,100

Balance Sheet as on 1st April, 2018

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital Accounts :			Land & Building	75,000	
Mr Kishor	1,80,000		Add : Appreciation	15,000	90,000
Mr Lal	60,000		Furniture	6,000	
Ram	60,000	3,00,000	Less : Depreciation	600	5,400
Creditors		1,20,000	Stock	60,000	
			Less : Depreciation	6,000	54,000
			Debtors		60,000
			Goodwill		60,000
			Bills Receivable		39,000
			Cash at Bank		1,11,600
		4,20,000			4,20,000

Working Notes : (1)

Dr. **Partners' Capital Accounts** **Cr.**

Particulars	Kishor (₹)	Lal (₹)	Ram (₹)	Particulars	Kishor (₹)	Lal (₹)	Ram (₹)
To Bank A/c	–	8,100	–	By Balance b / d	90,000	48,000	–
To Balance c / d	1,80,000	60,000	60,000	By Bank A/c	–	–	60,000
				By Goodwill A/c	45,000	15,000	–
				By General Reserve A/c	9,000	3,000	–
				By Revaluation A/c (Profit)	6,300	2,100	
				By Bank A/c	29,700	–	–
	1,80,000	68,100	60,000		1,80,000	68,100	60,000

Dr. **Bank Account** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b / d	30,000	By Lal's Capital A/c	8,100
To Ram's Capital A/c	60,000	By Balance c / d	1,11,600
To Kishor's Capital A/c	29,700		
	1,19,700		1,19,700

(2) Calculation of new profit sharing ratio :

New Ratio = (Balance of 1) × (old ratio)

Kishor's New ratio = $\left(1-\frac{1}{5}\right) \times \frac{3}{4} = \frac{4}{5} \times \frac{3}{4} = \frac{3}{5}$

Lal's New ratio = $\left(1-\frac{1}{5}\right) \times \frac{1}{4} = \frac{4}{5} \times \frac{1}{4} = \frac{1}{5}$

Ram's ratio = $\frac{1}{5}$

(3) Total capital of the firm = (Reciprocal of Ram's ratio) × (His capital contribution)

$= \frac{5}{1} \times 60{,}000 =$ ₹ 3,00,000

Kishor's new closing capital balance = 3,00,000 × $\frac{3}{5}$ = ₹ 1,80,000

Lal's new closing capital balance = 3,00,000 × $\frac{1}{5}$ = ₹ 60,000

Ram's new closing capital balance = ₹ 60,000

* **Q. 6. Vrushali and Leena are equal partners in the business. Their Balance Sheet as on 31st March, 2018 stood as under :**

Balance Sheet as on 31st March, 2018

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Sundry Creditors	90,000	90,000	Cash in Bank		62,000
Capitals :			Debtors	31,000	
Vrushali	45,000		Less : R.D.D.	1,000	30,000
Leena	30,000	75,000	Building		55,000
General Reserve		18,000	Machinery		24,000
			Bills Receivable		12,000
		1,83,000			1,83,000

They decided to admit Aparna on 1st April, 2018 on the following terms :

(1) The Machinery and Building be depreciated by 10 %. Reserve for Doubtful debts to be increased by ₹ 5,000.

(2) Bills receivable are taken over by Vrushali at the discount of 10 %.

(3) Aparna should bring ₹ 60,000 as capital for her 1/4th share in future profits.

(4) The Capital accounts of all the partners be adjusted in proportion in the new profit sharing ratio by opening Current accounts of the partners.

Prepare Profit and Loss Adjustment A/c, Partners' Capital A/c, Balance Sheet of new firm.

Solution :

Dr. **Profit and Loss Adjustment Account** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Machinery A/c	2,400	By Loss on Revaluation	
To Building A/c	5,500	Transferred to Partners' Capital A/cs :	
To R.D.D. A/c	5,000	Vrushali 7,050	
To Bills Receivable A/c (Discount)	1,200	Leena 7,050	14,100
	14,100		14,100

Dr. **Partners' Capital Accounts** **Cr.**

Particulars	Vrushali (₹)	Leena (₹)	Aparna (₹)	Particulars	Vrushai (₹)	Leena (₹)	Aparna (₹)
To Revaluation A/c (Loss)	7,050	7,050	–	By Balance b / d	45,000	30,000	–
				By Bank A/c	–	–	60,000
To Bills Receivable A/c	10,800	–	–	By General Reserve A/c	9,000	9,000	–
To Balance c / d	90,000	90,000	60,000	By Partner's Current A/c	53,850	58,050	–
	1,07,850	97,050	60,000		1,07,850	97,050	60,000

Balance Sheet as on 1st April 2018

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital A/cs :			Cash in Bank		1,22,000
Vrushali	90,000		Debtors	31,000	
Leena	90,000		Less : R.D.D. (1000 + 5000)	6,000	25,000
Aparna	60,000	2,40,000	Building	55,000	
Sundry Creditors		90,000	Less : Depreciation	5,500	49,500
			Machinery	24,000	
			Less : Depreciation	2,400	21,600
			Partners' Current A/cs :		
			Vrushali	53,850	
			Leena	58,050	1,11,900
		3,30,000			3,30,000

Working Notes :

(1) R.D.D. to be increased by ₹ 5,000 means subtract ₹ 5,000 from Debtors.

(2) Bills receivable taken by Vrushali at 10 % discount i.e. 12,000 – 1,200 = ₹ 10,800. Write this amount in debit side of partners Capital Account in Vrushali's column.

(3) Calculation of new ratio = 1 – share of new partner

$$= 1 - \frac{1}{4}$$

$$= \frac{3}{4} \text{ Remaining share}$$

New ratio = Old ratio × Balance 1 (Remaining Share)

Vrushali's new ratio = $\frac{1}{2} \times \frac{3}{4} = \frac{3}{8}$

Leena's new ratio = $\frac{1}{2} \times \frac{3}{4} = \frac{3}{8}$

Aparna's ratio = $\frac{1}{4}$

∴ Partner's new profit and loss ratio = $\frac{3}{8} : \frac{3}{8} : \frac{1}{4}$

$$= 3 : 3 : 2$$

Now, capital amount to be adjusted in partners new profit and loss ratio.

Total capital of the firm = (Reciprocal of New Partner's Share) × (New Partner's Capital)

$$= \left(\text{Reciprocal of } \frac{1}{4}\right) \times 60{,}000 = 4 \times 60{,}000 = ₹\ 2{,}40{,}000$$

Vrushali's capital balance = $\frac{3}{8} \times 2{,}40{,}000 =$ ₹ 90,000

Leela's capital balance = $\frac{3}{8} \times 2{,}40{,}000 =$ ₹ 90,000

Deficit of these capital balance are to be adjusted through Current account.

To keep balance of Vrushali's and Leena's capital ₹ 90,000 each, deficit of ₹ 53,850 and ₹ 58,050 are incurred which is transferred to respective Partner's Current A/cs and recorded on Asset side of Balance Sheet [As it is to be recovered from Partners].

*** Q. 7. The Balance Sheet of Medha and Radha who share profit and loss in the ratio 3 : 1 is as follows :**

Balance Sheet as on 31st March, 2018

Liabilities	Amount (₹)	Assets	Amount (₹)
Sundry Creditors	80,000	Cash	78,000
Bills Payable	20,000	Sundry Debtors	64,000
Bank Overdraft	20,000	Stock	40,000
Capital A/cs :		Plant & Machinery	60,000
Medha	1,20,000	Furniture	22,000
Radha	40,000	Land and Building	32000
General Reserves	16,000		
	2,96,000		2,96,000

They decided to admit Krutika on 1st April, 2018 on the following terms :

(1) Krutika is taken as partner on 1st April, 2017. She will pay 40,000 as her capital for 1/5th share in future profits and ₹ 2,500 as goodwill.

(2) 5 % provision for bad and doubtful debt be created on debtors.

(3) Furniture be depreciated by 20 %.

(4) Stocks be appreciated by 5 % and plant & machinery by 20 %.

(5) The Capital accounts of all partners be adjusted in their new profit sharing ratio by adjusting amount through loan.

(6) The new profit sharing ratio will be 3/5 : 1/5 : 1/5 respectively.

You are required to prepare Profit and Loss Adjustment A/c, Partners' Capital A/c, Balance Sheet of the new firm.

Solution :

Dr. Profit and Loss Adjustment Account Cr.

Particulars		Amount (₹)	Particulars	Amount (₹)
To R.D.D. A/c		3,200	By Stock A/c	2,000
To Depreciation A/c – Furniture		4,400	By Plant & Machinery A/c	12,000
To Profit on Revaluation Transferred to Partners' Capital Accounts :				
Medha	4,800			
Radha	1,600	6,400		
		14,000		14,000

Dr. **Partners' Capital Account** **Cr.**

Particulars	Medha (₹)	Radha (₹)	Krutika (₹)	Particulars	Medha (₹)	Radha (₹)	Krutika (₹)
To Partners' Loan A/c	18,675	6,225	–	By Balance b/d	1,20,000	40,000	–
To Balance c/d	1,20,000	40,000	40,000	By Bank A/c	–	–	40,000
				By Goodwill A/c	1,875	625	–
				By Revaluation A/c	4,800	1,600	–
				By General Reserve A/c	12,000	4,000	–
	1,38,675	46,225	40,000		1,38,675	46,225	40,000

Balance Sheet as on 1st April 2018

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital A/cs :			Cash		1,20,500
Medha	1,20,000		Sundry Debtors	64,000	
Radha	40,000		Less : R.D.D.	3,200	60,800
Krutika	40,000	2,00,000	Stock	40,000	
Sundry Creditors		80,000	Add : Appreciation	2,000	42,000
Bills Payable		20,000	Plant & Machinery	60,000	
Bank Overdraft		20,000	Add : Appreciation	12,000	72,000
Partner's Loan :			Furniture	22,000	
Medha	18,675		Less : Depreciation	4,400	17,600
Radha	6,225	24,900	Land and Building		32,000
		3,44,900			3,44,900

Working Notes :

(1) Total capital of the firm = (Reciprocal of New Partner's Profit Sharing ratio) × (Capital contributed by new partner)

$$= \left(\text{Reciprocal of } \tfrac{1}{5}\right) \times 40{,}000 = 5 \times 40{,}000 = ₹\ 2{,}00{,}000$$

Medha's closing capital balance = $\frac{3}{5} \times 2{,}00{,}000 = ₹\ 1{,}20{,}000$

Radha's closing capital balance = $\frac{1}{5} \times 2{,}00{,}000 = ₹\ 40{,}000$

(2) General reserve is distributed among old partners in their old profit and loss ratio.

(3) Cash Bal. : 78,000 + 40,000 + 2,500 = ₹ 1,20,500
[Amount brought in by new partner.]

*** Q. 8. The Balance Sheet of Sahil and Nikhil who share profits in the ratio of 3 : 2 as on 31st March, 2017 is as follows :**

Balance Sheet as on 31st March, 2017

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Creditors		60,000	Furniture		60,000
Capitals :			Building		72,000
Sahil	80,000		Debtors		40,000
Nikhil	1,00,000	1,80,000	Closing Stock		48,000
			Cash in Hand		20,000
		2,40,000			2,40,000

Varad admitted on 1st April, 2017 on the following terms :

(1) Varad was to pay ₹ 1,00,000 for his share of capital.

(2) He was also to pay ₹ 40,000 as his share of goodwill.

(3) The new profit sharing ratio was 3 : 2 : 3.

(4) Old partners decided to revalue the assets as follows :
Building ₹ 1,00,000, Furniture ₹ 48,000, Debtors ₹ 38,000 (in view of likely bad debts)

(5) It was found that there was a liability for ₹ 3,000 for goods in March, 2017 but recorded on 2nd April, 2017.

You are required to prepare :

(a) Profit and Loss Adjustment account

(b) Capital accounts of the partners

(c) Balance Sheet after the admission of Varad.

Solution :

Dr. **Profit and Loss Adjustment Account** **Cr.**

Particulars		Amount (₹)	Particulars	Amount (₹)
To Furniture A/c		12,000	By Building A/c	28,000
To Bad Debts A/c (likely)		2,000		
To Unrecorded Liability A/c		3,000		
To Profit on Revaluation Transferred to Partners' Capital A/cs :				
Sahil	6,600			
Nikhil	4,400	11,000		
		28,000		28,000

Dr. **Partners' Capital Accounts** **Cr.**

Particulars	Sahil (₹)	Nikhil (₹)	Varad (₹)	Particulars	Sahil (₹)	Nikhil (₹)	Varad (₹)
				By Balance b/d	80,000	1,00,000	–
				By Bank A/c	–	–	1,00,000
				By Goodwill A/c	24,000	16,000	–
To Balance c/d	1,10,600	1,20,400	1,00,000	By Revaluation A/c	6,600	4,400	–
	1,10,600	1,20,400	1,00,000		1,10,600	1,20,400	1,00,000

Balance Sheet as on 1st April, 2017

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital A/cs :			Furniture	60,000	
Sahil	1,10,600		Less : Depreciation	12,000	48,000
Nikhil	1,20,400		Building	72,000	
Varad	1,00,000	3,31,000	Add : Appreciation	28,000	1,00,000
Creditors		60,000	Debtors	40,000	
Unrecorded Liability		3,000	Less : Bad Debts (likely)	2,000	38,000
			Closing Stock		48,000
			Cash in Hand		1,60,000
		3,94,000			3,94,000

Working Notes :

(1) Cash in hand = Opening balance + Varad's capital + Varad's goodwill (amount brought in)
= 20,000 + 1,00,000 + 40,000
= ₹ 1,60,000

(2) Sacrifice ratio = Old ratio – New ratio

Sahil's sacrifice = $\frac{3}{5} - \frac{3}{8} = \frac{24-15}{40} = \frac{9}{40}$

Nikhil's sacrifice = $\frac{2}{5} - \frac{2}{8} = \frac{16-10}{40} = \frac{6}{40}$

i.e. sacrifice ratio = $\frac{9}{40} : \frac{6}{40} = 9 : 6 = 3 : 2$.

Goodwill is distributed among old partners in the sacrifice ratio.

∗ Q. 9. Mr Amit and Baban share profits and losses in the ratio 2 : 3 respectively. Their Balance Sheet as on 31st March, 2018 was as under :

Balance Sheet as on 31st March, 2018

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	1,40,000	Cash	1,10,000
Capital A/cs :		Land and Building	50,000
Amit	1,00,000	Plant	60,000
Baban	1,00,000	Furniture	4,000
		Stock	1,00,000
		Debtors	16,000
	3,40,000		3,40,000

They to admit Kamal on 1st April, 2018 on following terms :

(1) Kamal shall have 1/4th share in future profts.

(2) She shall bring ₹ 50,000 as her capital and ₹ 40,000 as her share of goodwill.

(3) Land and building to be valued at ₹ 60,000 and furniture to be depreciated by 10 %.

(4) Provision for bad and doubtful debts is to be maintained at 5 % on the sundry debtors.

(5) Stocks to be valued ₹ 1,10,000.

The Capital A/c of all partners to be adjusted in their new profit and loss ratio and excess amount be transferred to their loan accounts.

Prepare Profit and Loss Adjustment A/c, Capital A/cs, and New Balance Sheet.

Solution :

Dr. **Profit and Loss Adjustment Account** **Cr.**

Particulars		Amount (₹)	Particulars	Amount (₹)
To Depreciation A/c – Furniture		400	By Land and Building A/c	10,000
To R.D.D. A/c		800	By Stock A/c	10,000
To Profit on Revaluation Transferred to Partners' Capital A/cs :				
Amit	7,520			
Baban	11,280	18,800		
		20,000		20,000

Dr. **Partners' Capital Accounts** **Cr.**

Particulars	Amit (₹)	Baban (₹)	Kamal (₹)	Particulars	Amit (₹)	Baban (₹)	Kamal (₹)
To Partners' Loan A/c	63,520	45,280		By Balance b/d	1,00,000	1,00,000	–
To Balance c/d	60,000	90,000	50,000	By Bank A/c	–	–	50,000
				By Goodwill A/c	16,000	24,000	–
				By Revaluation A/c (Profit)	7,520	11,280	–
	1,23,520	1,35,280	50,000		1,23,520	1,35,280	50,000

Balance Sheet as on 1st April 2018

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital A/cs :			Cash		2,00,000
Amit	60,000		Land and Building	50,000	
Baban	90,000		Add : Appreciation	10,000	60,000
Kamal	50,000	2,00,000	Plant		60,000
Creditors		1,40,000	Furniture	4,000	
Partners' Loan :			Less : Depreciation	400	3,600
Amit	63,520		Stock	1,00,000	
Baban	45,280	1,08,800	Add : Appreciation	10,000	1,10,000
			Debtors	16,000	
			Less : R.D.D.	800	15,200
		4,48,800			4,48,800

Working Notes :

(1) Cash balance = Opening balance + Amount brought in by Kamal
= 1,10,000 + 50,000 + 40,000
= ₹ 2,00,000

(2) For calculation of new profit and loss ratio :
Refer to Working Note (1) of Textual Problem no. 1

(3) New profit and loss ratio = 6 : 9 : 5
Capital amount adjusted in their new profit and loss ratio by taking new partner Kamal's capital (₹ 50,000) as base.
For part 5 capital = ₹ 50,000 (Kamal's capital)
∴ For part 6 capital = ₹ 60,000 (Amit's capital)
∴ For part 9 capital = ₹ 90,000 (Baban's capital)

(4) After keeping these capital balances difference of amount of Amit's capital ₹ 63,520 and of Baban's capital ₹ 45,280 are taken as partner's loan to the firm and as a liability of the firm it is recorded in the Liabilities side of Balance Sheet.

*** Q. 10. The following is the Balance Sheet of Om and Jay on 31st March, 2018, they share profits and losses in the ratio 3 : 2 :**

Balance Sheet as on 31st March, 2018

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	30,000	Cash	3,000
Capital A/cs :		Building	15,000
Om	21,000	Machinery	21,000
Jay	21,000	Furniture	900
Current A/cs :		Stock	12,300
Om	3,750	Debtors	27,000
Jay	3,450		
	79,200		79,200

They take Jagdish into partnership on 1st April, 2018. The terms being :

(1) Jagdish should pay ₹ 3,000 as his share of Goodwill. 50 % of goodwill withdrawn by partners in cash.

(2) He should bring ₹ 9,000 as capital for 1/4th share in future profits.

(3) Building to be valued at 18,000, Machinery and Furniture to be reduced by 10 %.

(4) A provision of 5 % on debtors to be made for doubtful debts.

(5) Stock to be taken at the value of ₹ 15,000.

Prepare Profit and Loss A/c, Partners' Current A/c, Balance Sheet of the new firm.

Solution :

Dr. **Profit and Loss Adjustment Account** **Cr.**

Particulars		Amount (₹)	Particulars	Amount (₹)
To Depreciation A/c – Machinery		2,100	By Building A/c	3,000
To Depreciation A/c – Furniture		90	By Stock A/c	2,700
To R.D.D. A/c		1,350		
To Profit on Revaluation Transferred to Partners Capital A/cs :				
Om	1,296			
Jay	864	2,160		
		5,700		5,700

Dr. **Partners' Current Accounts** **Cr.**

Particulars	Om (₹)	Jay (₹)	Particulars	Om (₹)	Jay (₹)
To Goodwill	900	600	By Balance b / d	3,750	3,450
To Balance c / d	5,946	4,914	By Goodwill A/c	1,800	1,200
			By Revaluation A/c	1,296	864
	6,846	5,514		6,846	5,514

Balance Sheet as on 1st April, 2018

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital Accounts :			Cash		13,500
Om	21,000		Building	15,000	
Jay	21,000		Add : Appreciation	3,000	18,000
Jagdish	9,000	51,000	Machinery	21,000	
Current A/cs :			Less : Depreciation	2,100	18,900
Om	5,946		Furniture	900	
Jay	4,914	10,860	Less : Depreciation	90	810
Creditors		30,000	Stock	12,300	
			Add : Appreciation	2,700	15,000
			Debtors	27,000	
			Less : R.D.D.	1,350	25,650
		91,860			91,860

Working Notes :

(1)

Dr. **Cash Account** **Cr.**

Particulars		Amount (₹)	Particulars		Amount (₹)
To Balance b/d		3,000	By Om's Capital A/c	900	
To Jagdish's Capital A/cs		9,000	By Jay's Capital A/c	600	1,500
To Om's Capital A/c	1,800		By Balance c/d		13,500
To Jay's Capital A/c	1,200	3,000			
		15,000			15,000

(2) Write partners capital accounts balance as fixed capital balance in the Balance Sheet and transferred current account balance in the Balance Sheet as Partners Current A/c.

(3) As shown in the cash account partners' withdrew half amount of goodwill amount share.

PROBLEMS FOR PRACTICE

Q. 1. Dave and Chokshi are partners in a firm sharing profits and losses in the ratio of 3 : 2. Their Balance Sheet as on 31st March, 2019 was as follows :

Balance Sheet as on 31st March, 2019

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital A/cs :		Cash in Hand	31,500
Dave	2,10,000	Bills Receivable	58,000
Chokshi	1,50,000	Debtors	88,000
Creditors	96,000	Stock	60,000
Bills Payable	29,000	Furniture	1,04,500
General Reserve	52,000	Land and Buildings	1,95,000
	5,37,000		5,37,000

Patel is admitted as partner in the firm on 1st April, 2019 on the following terms :

(1) Patel is to pay ₹ 1,60,000 as his capital for $\frac{1}{5}$th share in future profit and he should pay ₹ 1,20,000 as goodwill.

(2) Stock is to be reduced by 10 %. Furniture is to be reduced by 20 %.

(3) R.D.D. is to be provided at 5% on the Debtors.

(4) Land and Buildings are to be appreciated by 20 %.

Pass journal entries to record the above scheme of admission and prepare Balance Sheet of the new firm.

[**Ans.** (1) Revaluation Profit = ₹ 7,700; Division of Profit : Dave = ₹ 4,620 and Chokshi = ₹ 3,080.
(2) Balance in Capital A/cs : Dave = ₹ 3,17,820, Chokshi = ₹ 2,21,880 and Patel = ₹ 1,60,000.
(3) Balance Sheet Total = ₹ 8,24,700.]

Q. 2. The following is the Balance Sheet of Prihaan and Kahaan, partners in a firm sharing profits and losses in the ratio of 3 : 2 respectively :

Balance Sheet as on 31st March, 2019

Liabilities	Amount (₹)	Assets	Amount (₹)
Sundry Creditors	70,000	Cash at Bank	52,000
Prihaan's Capital	3,80,000	Sundry Debtors	84,000
Kahaan's Capital	3,00,000	Land and Buildings	2,50,000
General Reserve	1,20,000	Stock	96,000
		Plant and Machinery	2,20,000
		Furniture and Fixtures	1,68,000
	8,70,000		8,70,000

On 1st April, 2019 they admit Shivaan into the partnership on the following terms :

(1) He shall pay ₹ 2,00,000 as his share of goodwill, 50 % of which amount shall be withdrawn by the old partners.

(2) He shall bring in ₹ 2,40,000 as his capital for $\frac{1}{4}$th share in future profits.

(3) For the purpose of his admission, the assets shall be revalued as follows :

Land and Buildings at ₹ 2,60,000, Plant and Machinery at ₹ 2,00,000, Stock at ₹ 80,000 and Furniture and Fixtures at ₹ 1,60,000, while Sundry debtors shall be subject to a provision of 5 % for bad and doubtful debts.

Draft journal entries to record the above scheme of admission and prepare Balance Sheet of the new firm.

[**Ans.** (1) Revaluation Loss = ₹ 38,200; Division of Loss : Prihaan = ₹ 22,920 and Kahaan = ₹ 15,280.
(2) Capital Balance : Prihaan = ₹ 4,89,080, Kahaan = ₹ 3,72,720, Shivaan = ₹ 2,40,000
(3) Balance Sheet Total = ₹ 11,71,800.]

Q. 3. Ravi and Kavi are the partners in a firm sharing profits and losses in the ratio of 3 : 1. Their Balance Sheet as on 31st March, 2020 was as follows :

Balance Sheet as on 31st March, 2020

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital A/cs :		Cash at Bank	32,250
Ravi	1,22,500	Bills Receivable	18,250
Kavi	1,22,500	Debtors	24,000
Creditors	20,000	Stock	20,000
Bills Payable	12,000	Furniture	52,500
Reserve Fund	30,000	Land and Building	1,60,000
	3,07,000		3,07,000

They have admitted Shiv on 1st April, 2020 as a partner on the following terms :

(1) Shiv will bring ₹ 1,07,500 as Capital for $\frac{1}{5}$th share.

(2) The Goodwill account be opened in the books of the firm for ₹ 40,000.

(3) Stock and Furniture is to be reduced by 10 % each.

(4) A provision of 5 % on debtors be made against doubtful debts.

(5) Land and Building are to be appreciated by 20 %.

(6) Creditors of ₹ 6,250 are not likely to claim and hence should be written off.

(7) Rent of ₹ 7,250 due but not received has not been recorded in the books.

Prepare : (1) Profit and Loss Adjustment A/c (2) Partners' Capital A/cs (3) Balance Sheet of new firm.

[**Ans.** (1) Revaluation Profit = ₹ 37,050; Division of Profit : Ravi = ₹ 27,787 and Kavi = ₹ 9,263. (2) Balance in Capital A/cs : Ravi = ₹ 2,02,787, Kavi = ₹ 1,49,263 and Shiv = ₹ 1,07,500. (3) Cash balance at the end = ₹ 1,39,750. (4) Balance Sheet Total = ₹ 4,85,300.]

[**Hints :**

(1) Amount of goodwill credited to Ravi = ₹ 30,000 and Kavi = ₹ 10,000; Goodwill then shown in the Assets side of Balance Sheet at ₹ 40,000.

(2) Cash balance at the end = ₹ 1,39,750. (Opening cash ₹ 32,250 + Shiv's Capital ₹ 1,07,500)]

Q. 4. Following is the Balance Sheet of Kalpana and Bela as on 31st March, 2020. They share profits and losses in the ratio of 3/5 and 2/5 respectively :

Balance Sheet as on 31st March, 2020

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	24,000	Land and Building	2,40,000
Bills Payable	20,000	Plant and Machinery	1,30,000
General Reserve	64,000	Sundry Debtors	60,000
Profit and Loss A/c	46,000	Closing Stock	54,000
Capital A/cs :		Cash in Hand	80,000
Kalpana	2,40,000		
Bela	1,70,000		
	5,64,000		5,64,000

They decide to admit Shilpa on 1st April, 2020 on the following conditions :

(1) Shilpa will bring ₹ 1,50,000 as her capital for $\frac{1}{5}$th share.

(2) Goodwill A/c be opened in the books of the firm for ₹ 70,000.

(3) Land and Building be appreciated by 20 %.

(4) Plant and Machinery be depreciated by 15%.

(5) Reserve for bad and doubtful debts is to be maintained at 5% on Sundry debtors.

(6) A provision for outstanding legal expenses is to be made for ₹ 4,750.

Prepare Profit and Loss Adjustment A/c, Partners' Capital A/cs and Balance Sheet of the new firm.

[**Ans.** (1) Profit on Revaluation = ₹ 20,750; Division of Profit : Kalpana = ₹ 12,450 and Bela = ₹ 8,300. (2) Capital balances : Kalpana = ₹ 3,60,450, Bela = ₹ 2,50,300 and Shilpa = ₹ 1,50,000. (3) Cash balance = ₹ 2,30,000. (4) Balance Sheet Total = ₹ 8,09,500.]

[**Hint :**

Provision for outstanding expenses ₹ 4,750 is to be debited to Profit and Loss Adjustment A/c and then to be shown on Liabilities side of the new Balance Sheet.]

Q. 5. Atul and Amol were partners sharing profits and losses in the ratio of 2 : 1 respectively. Their Balance Sheet was as follows :

Balance Sheet as on 31st March, 2019

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital A/cs :		Cash at Bank	34,000
Atul	1,24,000	Investments	52,500
Amol	96,000	Debtors	35,000
General Reserve	24,000	Stock	41,000
Trade Creditors	40,000	Furniture	65,000
Bills Payable	37,500	Building	1,25,000
Bank Loan	61,000	Profit and Loss A/c	30,000
(Taken on 1st July 2018)			
	3,82,500		3,82,500

On 1st April 2019, Rahul is admitted in the partnership on the following terms :

(1) Rahul should bring in cash ₹ 80,000 as capital for $\frac{1}{5}$th share in future profit.

(2) Goodwill A/c be raised in the books of the firm for ₹ 64,500.

(3) Building is revalued at ₹ 1,59,000 and the value of stock be reduced by ₹ 15,000.

(4) Reserve for doubtful debts be provided at 5 % on Debtors.

(5) Interest at the rate of 12 % p.a. is due on Bank loan.

(6) Bills payable is paid at a discount of 10 %.

(7) Goodwill is to be written off after the admission of Rahul.

Prepare Profit and Loss Adjustment A/c, Capital A/cs of Partners and Balance Sheet of the new firm.

[**Ans.** (1) Revaluation Profit = ₹ 15,510; Division of Profits : Atul = ₹ 10,340 and Amol = ₹ 5,170.
(2) Balance in Capital A/cs : Atul = ₹ 1,38,940, Amol = ₹ 1,03,470 and Rahul = ₹ 67,100.
(3) Cash balance = ₹ 80,250. (4) Balance Sheet Total = ₹ 4,16,000.]

[**Hints :**

(1) Interest on Bank loan = 61,000 × $\frac{9}{12}$ × $\frac{12}{100}$ = ₹ 5,490. Interest on Bank loan is to be debited to Profit and Loss Adjustment Account and it is to be added to Bank loan on Liabilities side of Balance Sheet.

(2) Discount earned on payment of Bills payable = 10 % of 37,500 = ₹ 3,750. It is to be credited to Profit and Loss Adjustment Account and then it is to be deducted from Bills payable. The balance of Bills payable of ₹ 33,750 is to be paid in cash.]

Q. 6. Following is the Balance Sheet of Shreya and Sunny who share profits or losses as 4 : 1.

Balance Sheet as on 31st March, 2020

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital A/cs :		Goodwill	40,000
Shreya	1,84,000	Furniture	1,10,000
Sunny	1,00,000	Stock	80,000
General Reserve	55,000	Debtors	45,000
Creditors	22,000	Bank	86,000
	3,61,000		3,61,000

On 1st April 2020 they admit Sunder as a partner on the following terms :

(1) Sunder will bring ₹ 82,000 as his capital for $\frac{1}{5}$th share in future profit.

(2) For the purpose of Sunder's admission, the goodwill of the firm is valued at three times the average profit for last four years. The profits and losses of the firm were : 2015 – 16 : ₹ 35,600 (profit), 2016 – 17 : ₹ 42,500 (profit), 2017 – 18 ₹ 15,000 (loss) and 2018 – 19 : ₹ 80,000 (profit). It is decided to raise goodwill to the full extent.

(3) Furniture is depreciated by 20 %, stock is undervalued by 20 % and 90 % of debtors are held good and remaining debtors are written off. 5 % of General reserve is kept as provision for bad debts against debtors. Creditors are overvalued by 10 %.

(4) Rent due but not received ₹ 12,400 to be brought into the account. Goodwill is to be written off after the admission of Sunder.

Prepare Revaluation A/c, Partners' Capital A/cs and Balance Sheet of the firm after the admission of Sunder.

[**Ans.** (1) Profit on Revaluation = ₹ 75,225; Division of Profits : Shreya = ₹ 60,180 and Sunny = ₹ 15,045. (2) Capital balances : Shreya = ₹ 2,17,292; Sunny = ₹ 1,08,323 and Sunder = ₹ 60,535. (3) Balance Sheet Total = ₹ 4,06,150.]

[**Hint :**

At the time of admission goodwill is valued at ₹ 1,07,325 i.e. Goodwill is increased in value by ₹ 67,325. Increased value of goodwill is to be credited to Profit and Loss Adjustment A/c. Then goodwill of ₹ 1,07,325 is to be written off and adjusted to all Partners' Capital A/cs in their new profit sharing ratio.]

Q. 7. Hetvi and Punita were partners sharing profits and losses in the proportion of $\frac{2}{3}$ and $\frac{1}{3}$ respectively. Their Balance Sheet is as follows :

Balance Sheet as on 31st March, 2019

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital A/cs :			Building		60,000
Hetvi	57,600		Furniture		18,000
Punita	38,400	96,000	Sundry Debtors	37,800	
General Reserve		10,800	Less : R.D.D.	1,800	36,000
Profit and Loss A/c		3,600	Stock		50,400
Sundry Creditors		48,000	Cash		9,600
Hetvi's Loan		15,600			
		1,74,000			1,74,000

On 1st April 2019 Nisarg is admitted in the partnership on the following terms :

(1) Nisarg should bring in cash of ₹ 28,800 as capital for $\frac{1}{5}$th share in future profit.

(2) Goodwill was raised in the books of the firm for ₹ 10,800.

(3) Building is revalued at ₹ 67,200 and the value of Stock to be reduced by ₹ 3,600.

(4) Reserve for doubtful debts be maintained at ₹ 1,080.

(5) Hetvi's loan is to be repaid.

Prepare : Revaluation Account, Capital Accounts of Partners and Balance Sheet of the new firm.

[**Ans.** (1) Revaluation Profit = ₹ 4,320; Division of Profit : Hetvi = ₹ 2,880 and Punita = ₹ 1,440
(2) Closing Capital balances : Hetvi = ₹ 77,280, Punita = ₹ 48,240 and Nisarg = ₹ 28,800.
(3) Balance Sheet Total = ₹ 2,02,320.]

[**Hints :**

(1) Goodwill A/c is to be debited by ₹ 10,800 and Old partners' capital A/cs are to be credited in the ratio of 2 : 1 i.e. Hetvi = ₹ 7,200 and Punita = ₹ 3,600. Balance in Goodwill A/c of ₹ 10,800 is to be shown on the Assets side of Balance Sheet.

(2) Cash Balance at the end = 9,600 + 28,800 (capital of Nisarg) – 15,600 (Payment to Hetvi's loan)
= ₹ 22,800.

(3) R.D.D. reduced by (1,800 – 1,080) ₹ 720. Reduction in R.D.D. of ₹ 720 is to be credited to Revaluation A/c.]

Q. 8. The Balance Sheet of Venisha and Jyot, who are in partnership sharing profits and losses in the ratio of 3 : 1, is as follows :

Balance Sheet as on 31st March, 2019

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Sundry Creditors		26,000	Cash		57,000
Bills Payable		13,000	Sundry Debtors		36,000
Bank Overdraft		60,500	Stock		46,000
Capital A/cs :			Plant and Machinery		1,40,000
Venisha	3,10,000		Furniture		80,500
Jyot	1,50,000	4,60,000	Land and Building		2,50,000
General Reserve		50,000			
		6,09,500			6,09,500

Shobha is taken as partner on 1st April, 2019 on the following terms :

(1) She should pay ₹ 1,10,000 as her capital for $\frac{1}{5}$th share in future profit and ₹ 85,000 as her share of goodwill.

(2) A 5 % provision for bad and doubtful debts to be created on sundry debtors.

(3) Furniture is to be depreciated by 20 %.

(4) Stock is to be appreciated by 5% and plant and machinery by 20 %.

(5) The Capital A/cs of all partners to be adjusted in their new profit sharing ratio by making adjustments through Cash A/c.

Prepare the Profit and Loss Adjustment A/c, the Capital A/cs of the partners and the Balance Sheet of the new firm.

[**Ans.** (1) Revaluation Profit = ₹ 12,400; Division of Profit : Venisha = ₹ 9,300 and Jyot = ₹ 3,100. (2) Balance in Capital A/cs : Venisha = ₹ 3,30,000, Jyot = ₹ 1,10,000 and Shobha = ₹ 1,10,000. Excess amount over capital balance paid to Venisha = ₹ 90,550 and Jyot = ₹ 76,850. (3) Cash balance = ₹ 84,600. (4) Balance Sheet Total = ₹ 6,49,500.]

[**Hint :**

New profit sharing ratio of Venisha, Jyot and Shobha is 3 : 1 : 1 respectively.]

Q. 9. The following is the Balance Sheet of Dhanesh and Bhadresh who share profits and losses in the proportion of 3 : 2 respectively :

Balance Sheet as on 31st March, 2020

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital A/cs :		Land and Buildings	2,17,500
Dhanesh	3,24,500	Plant and Machinery	1,24,500
Bhadresh	1,37,500	Furniture	91,050
General Reserve	65,000	Stock	44,350
Creditors	38,000	Debtors	31,500
Bills Payable	17,400	Cash	73,500
	5,82,400		5,82,400

On 1st April 2020, they agreed to admit Rakesh in their partnership on the following terms :

(1) The new profit sharing ratio is to be 3 : 1 : 1.

(2) Rakesh is to bring in ₹ 67,000 as his share of goodwill and ₹ 90,000 as his capital.

(3) Land and Buildings are to be revalued at 90 % of the book value.

(4) Machinery and Stock is to be reduced by 5 % and 10 % respectively.

(5) A reserve for bad debts is to be provided at 5 % on debtors.

(6) The capitals of the old partners are to be adjusted in their new profit sharing ratio by making adjustments through current accounts of partners concerned.

Prepare the Profit and Loss Adjustment A/c, the Capital A/cs of the Partners and the Balance Sheet after Rakesh's admission.

[**Ans.** (1) Profit and Loss Adjustment A/c Loss = ₹ 33,985. Division of Loss : Dhanesh = ₹ 20,391 and Bhadresh = ₹ 13,594. (2) Partners' Capital A/c balances : Dhanesh = ₹ 2,70,000; Bhadresh = ₹ 90,000 and Rakesh = ₹ 90,000. (3) Partners' Current A/c balances : Dhanesh = ₹ 73,109 (cr. balance) and Bhadresh = ₹ 1,26,906 (cr. balance) (4) Balance Sheet Total = ₹ 7,05,415.]

[**Hint :**

Entire goodwill amount is to be transferred to Bhadresh's Capital A/c as Bhadresh alone sacrifices his profit sharing ratio in favour of Rakesh.]

Q. 10. Rushabh and Yesha are in partnership sharing profits and losses in the proportion of 3 : 1 respectively and having the following Balance Sheet :

Balance Sheet as on 31st March, 2020

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital A/cs :		Building	50,000
Rushabh	60,000	Furniture	4,000
Yesha	32,000	Stock	40,000
Reserve Fund	8,000	Sundry Debtors	40,000
Bills Payable	15,000	Bills Receivable	26,000
Sundry Creditors	65,000	Bank	20,000
	1,80,000		1,80,000

On 1st April, 2020, they admit Nisha into the firm on the following terms :

(1) She should be given $\frac{1}{5}$th share in the future profit and should bring in ₹ 30,000 as capital.

(2) The goodwill of the firm should be valued at ₹ 50,000 and Nisha should bring her share in cash.

(3) Furniture and stock should be reduced by 10 % and R.D.D. should be created at 5 % of the debtors.

(4) Buildings should be raised by 20 %.

(5) The capital accounts of all partners should be adjusted in their profit sharing proportion through their loan accounts.

Prepare necessary ledger accounts in the books of firm and Balance Sheet of the new firm.

[**Ans.** (1) Profit on Revaluation = ₹ 3,600; Division of Profit : Rushabh = ₹ 2,700 and Yesha = ₹ 900. (2) Capital balances at the end : Rushabh = ₹ 90,000, Yesha = ₹ 30,000 and Nisha = ₹ 30,000; Loan from Yesha : ₹ 7,400 and Loan to Rushabh = ₹ 13,800. (3) Balance Sheet Total = ₹ 2,37,400.]

Q. 11. Sonu and Monu are partners in a firm sharing profits and losses in the ratio of 3 : 2 respectively. Their Balance Sheet as on 31st March 2020, was as follows :

Balance Sheet as on 31st March, 2020

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital A/cs :		Land and Building	1,70,000
Sonu	1,50,000	Stock	12,500
Monu	1,20,000	Furniture	55,000
Reserve	57,500	Debtors	17,500
Creditors	15,000	Investments	60,000
Bills Payable	27,500	Cash at Bank	55,000
	3,70,000		3,70,000

On 1st April, 2020, they admitted Keyur as a partner on the following terms :

(1) Keyur shall bring ₹ 62,500 as his capital for $\frac{1}{4}$th share in future profit.

(2) Keyur shall pay ₹ 20,000 as his share of goodwill in cash. The amount of goodwill withdrawn by old partners.

(3) The Assets and Liabilities revalued as under :

(A) Land and Building undervalued by 20 %.

(B) Furniture and Stock be depreciated by 10 % and 5 % respectively.

(C) 5 % R.D.D. to be maintained on Debtors.

(4) The Capital Accounts of all partners be adjusted in their new profit sharing ratio by making necessary adjustment through their Current Accounts.

Prepare : (1) Profit and Loss Adjustment A/c (2) Partners' Capital A/cs and (3) Balance Sheet of new firm.

[**Ans.** (1) Revaluation Profit = ₹ 35,500; Division of Profit : Sonu = ₹ 21,300 and Monu = ₹ 14,200. (2) Balance in Capital A/cs : Sonu = ₹ 1,12,500, Monu = ₹ 75,000 and Keyur = ₹ 62,500. Excess amount over capital balance transferred to Current A/cs : Sonu = ₹ 93,300 (Cr. Bal) and Monu = ₹ 82,200. (Cr. Bal) (3) Bank Balance = ₹ 1,17,500. (4) Balance Sheet Total = ₹ 4,68,000.]

[**Hint :**

New profit sharing ratio of Sonu, Monu and Keyur is 9 : 6 : 5 respectively.]

Q. 12. Achu and Pinky are in partnership sharing profits and losses in the proportion of $\frac{3}{4}$ and $\frac{1}{4}$ respectively. Their Balance Sheet as on 31st March, 2020 was as under :

Balance Sheet as on 31st March, 2020

Liabilities	Amount (₹)	Assets	Amount (₹)
General Reserve :	1,26,000	Land and Building	4,95,000
Sundry Creditors	75,000	Debtors	30,000
Capital A/cs :		Bills Receivable	67,500
Achu	5,10,000	Stock	1,20,000
Pinky	3,39,000	Furniture	1,65,000
		Bank Balance	1,72,500
	10,50,000		10,50,000

On 1st April, 2020, they decided to admit Nainesh on the following terms :

(1) He should be given $\frac{1}{5}$th share in profits and for that he should bring in ₹ 1,80,000 by cheque as capital.

(2) Goodwill should be raised to ₹ 1,80,000.

(3) Depreciate Furniture and Stock by 10 % and create 5 % R.D.D. on Debtors.

(4) Appreciate Land and Building by 20 %.

(5) Capitals of all the partners should be adjusted in their profit sharing proportion, through their loan accounts.

You are required to prepare : (a) Profit and Loss Adjustment A/c (b) Partners' Capital A/cs (c) Opening Balance Sheet of the New firm.

[**Ans.** (1) Profit on Revaluation = ₹ 69,000; Division of Profit : Achu = ₹ 51,750 and Pinky = ₹ 17,250. (2) Balance in Capital A/cs : Achu = ₹ 5,40,000, Pinky = ₹ 1,80,000 and Nainesh = ₹ 1,80,000. Excess amount over capital balance transferred to Loan A/cs : Loan from Pinky = ₹ 2,51,250; Loan from Achu = ₹ 2,52,750. (3) Bank Balance = ₹ 3,52,500. (4) Balance Sheet total = ₹ 14,79,000.]

[**Hints :**

(1) New profit sharing ratio of Achu, Pinky and Nainesh is 3 : 1 : 1 respectively.

(2) Goodwill credited to Achu = ₹ 1,35,000 and Pinky = ₹ 45,000 and then shown in Balance Sheet on Assets side at ₹ 1,80,000.

(3) Bank balance at the end = ₹ 3,52,500.]

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4

RECONSTITUTION OF PARTNERSHIP

(Retirement of Partner)

SYLLABUS

4.1 Introduction, Meaning and Reasons
4.2 New Ratio
4.3 Gain Ratio
4.4 Treatment of Goodwill
4.5 Transfer of Reserve Fund or General Reserve / Accumulated Profit or Loss
4.6 Revaluation of Assets and Re-assessment of Liabilities
4.7 Adjustment of Capitals
4.8 Total payable amount to Retiring Partner

(A) BRIEF OVERVIEW

4.1 Introduction, Meaning and Reasons :

To retire means to give up or to cause a person to give up his work, especially reaching superannuation age. Accordingly, retirement of partner refers to a process in which a partner leaves the firm or severs his connection or relationship with other partners on account of old age or continued ill health or loss of interest in the firm, misunderstanding amongst the partners, loss in the business or any other similar reasons. On retirement, retired partner ceases to be a partner of the firm. A partner who leaves the firm or goes away from the business is called “retiring partner” and partners who continue (or remain) in the partnership firm are called “continuing partners”. On retirement of partner, it is just necessary to ascertain or compute the amount payable to him. It is ascertained by considering net balance in Capital Account and Current Account, his share in accumulated profit, Reserve fund, part losses, goodwill, revaluation profit or loss, etc.

A partner may retire from the firm due to : (1) old age, or continued sickness (2) loss incurred in the business (3) loss of interest in the firm on account of any reason (4) partner intends to start another or new business (5) differences of opinion or misunderstanding with the other partners, etc.

The partner may retire from the firm by undertaking one of the following steps or procedures : (i) As per the terms mentioned in the partnership agreement or Deed (ii) By taking consent of other partners. (iii) By giving notice of retirement in writing to other partners.

4.2 New Ratio :

New ratio is a ratio or proportion in which continuing partners decide to share profits or losses of the business after retirement of a partner.

Calculation of new profit sharing ratio :

Examples :

(1) A, B and C are the partners, share profits and losses in the ratio of 4 : 3 : 2 respectively. If B retires from the firm due to old age, calculate new ratio of the continuing partner.

Ans. The new profit sharing ratio of A and C is 4 : 2 i.e. 2 : 1. It is calculated as follows :

Ratio of A, B and C = 4 : 3 : 2

Now cancel out B's ratio i.e. 3 from the above ratio. The remaining ratio i.e. 2 : 1 is the new ratio of A and C.

(2) If A, B and C share profits as 3 : 2 : 1 and if on B's retirement from the firm, A and C take up B's share in the ratio of 3 : 1, the New Profit Sharing Ratio will be determined as follows :

Ans. A's Gain Ratio = B's Ratio $\times \frac{3}{4}$

$= \frac{2}{6} \times \frac{3}{4} = \frac{1}{4}.$

C's Gain Ratio $= \frac{2}{6} \times \frac{1}{4} = \frac{1}{12}.$

New Ratio = Old Ratio + Gain Ratio

A's new ratio $= \frac{3}{6} + \frac{1}{4} = \frac{6+3}{12} = \frac{9}{12}$

C's new ratio $= \frac{1}{6} + \frac{1}{12} = \frac{2+1}{12} = \frac{3}{12}$

Thus, New Ratio of A and C is $\frac{9}{12} : \frac{3}{12} = 9 : 3 = 3 : 1$

4.3 Gain Ratio :

Profit sharing ratio which is acquired by continuing partners on account of retirement or death of a partner is called Gain Ratio. It is generally calculated at the time of retirement or death of a partner. Gain ratio is calcualted by using the following formula :

Gain Ratio = New Ratio – Old Ratio.

Gain ratio is calculated and used to write off the goodwill raised or created to the extent of retiring partner's share only.

Examples :

(1) P, Q and R are partners sharing profits and losses in the ratio of 2 : 2 : 1. Q retires and P and R share future profits equally. Calculate gain ratio.

Ans. New Ratio : P $= \frac{1}{2}$ and R $= \frac{1}{2}$

Old Ratio : P $= \frac{2}{5}$ and R $= \frac{1}{5}$

Gain Ratio = New Ratio – Old Ratio

P's Gain Ratio $= \frac{1}{2} - \frac{2}{5} = \frac{5-4}{10} = \frac{1}{10}$

R's Gain Ratio $= \frac{1}{2} - \frac{1}{5} = \frac{5-2}{10} = \frac{3}{10}$

$\therefore$ Gain Ratio of P and R is $\frac{1}{10} : \frac{3}{10}$ i.e. 1 : 3.

(2) A, B and C are partners sharing profit and losses in the ratio of 3 : 2 : 1 and C retires. The new ratio of A and B is 5 : 4. Calculate the gain ratio.

Ans. New Ratio : A $= \frac{5}{9}$ and B $= \frac{4}{9}$

Old Ratio : A $= \frac{3}{6}$ and B $= \frac{2}{6}$

Gain Ratio = New Ratio – Old Ratio

A's Gain Ratio $= \frac{5}{9} - \frac{3}{6} = \frac{10-9}{18} = \frac{1}{18}$

B's Gain Ratio $= \frac{4}{9} - \frac{2}{6} = \frac{8-6}{18} = \frac{2}{18}$

Gain Ratio of A and B is $\frac{1}{18} : \frac{2}{18}$ i.e. 1 : 2.

4.4 Treatment of Goodwill :

At the time of retirement of a partner for adjustment of goodwill, one of the following courses may be adopted :

(1) When goodwill does not appear in the books of account :

If goodwill account is not shown at all in the books of account on the date of retirement, it may be adjusted in any one of the following five ways :

(a) When goodwill is raised to its full value and retained in the business :

Goodwill A/c	Dr.	XXX	
To All Partners' Capital / Current A/cs			XXX

(Being full value of Goodwill is transferred to all partners' Capital / Current A/cs in their old profit sharing ratio)

(**Note :** *In this case, the full value of goodwill is shown in the Balance Sheet on Assets side.*)

(b) When goodwill is raised to its full value and then written off from the books of account :

(i) When Goodwill is raised :

Goodwill A/c	Dr.	XXX	
To All Partners' Capital / Current A/cs			XXX

(Being goodwill raised and credited to all partners' capital accounts in their old ratio)

(ii) When Goodwill is written off :

Continuing Partners' Capital / Current A/cs	Dr.	XXX	
To Goodwill A/c			XXX

(Being goodwill adjusted to continuing partners' Capital or Current A/cs in their new profit sharing ratio)

(**Note :** *In this case, goodwill does not appear in the Balance Sheet.*)

(c) When goodwill is raised partially, that is by an amount equal to retiring partners' share and then retained in the business :

Goodwill A/c	Dr.	XXX	
To Retiring Partner's Capital / Current A/c			XXX

(Being goodwill to the extent of retiring partner's share raised and credited to his Capital A/c)

(d) When goodwill is raised only to the extent of retiring partner's share and then written off from the books of account :

(i) When Goodwill is raised :

Goodwill A/c	Dr.	XXX	
To Retiring Partner's Capital / Current A/c			XXX

(Being goodwill to the extent of retiring partner's share raised and credited to his Capital A/c)

(ii) When goodwill is written off :

Continuing Partners' Capital / Current A/cs	Dr.	XXX	
To Goodwill A/c			XXX

(Being goodwill adjusted to continuing partners' Capital or Current A/cs in their gain ratio)

(e) When goodwill is adjusted through Current A/cs or Capital A/cs of the partners without opening a Goodwill A/c :

Continuing Partners' Capital / Current A/cs	Dr.	XXX	
To Retiring Partner's Capital / Current A/c			XXX

(Being continuing Partners' Current A/cs or Capital A/cs are debited in their gain ratio)

(2) When goodwill is already appearing in the books of account :

(i) If the amount of goodwill appears in the Balance Sheet is less than its actual value of goodwill (undervalued) :

Goodwill A/c	Dr.	XXX	
To All Partners' Capital / Current A/cs			XXX

(Being increased value of goodwill transferred to all Partners' Capital A/cs/Current A/cs in their old profit sharing ratio)

Alternatively, following entry may be passed :

Goodwill A/c	Dr.	XXX	
To Profit and Loss Adjustment/Revaluation A/c			XXX

(Being increased value of goodwill transferred to Profit and Loss Adjustment A/c or Revaluation A/c)

(ii) If the amount of goodwill appears in the Balance Sheet is greater than the value of goodwill (overvalued) :

All Partners' Capital / Current A/cs	Dr.	XXX	
To Goodwill A/c			XXX

(Being decreased value of goodwill adjusted to all Partners' Capital / Current A/cs in their old profit sharing ratio)

Alternatively, following entry may be passed :

Profit and Loss Adjustment / Revaluation A/c	Dr.	XXX	
To Goodwill A/c			XXX

(Being decreased value of goodwill adjusted to Profit and Loss Adjustment A/c or Revaluation A/c)

4.5 Transfer of Reserve Fund or General Reserve / Accumulated Profit or Loss :

On retirement of a partner, balance in general reserve, as well as past accumulated undistributed profit are transferred to all partners' capital accounts or current accounts in their old profit sharing ratio. Similarly accumulated past losses of the firm are also adjusted to all partners' capital accounts or current accounts in their old profit sharing ratio.

However, sometimes, if continuing partners so desire, only retiring partners' share in general reserve and accumulated past profits or losses is transferred to his capital account or current account. Following journal entries are passed for transfer of general reserve and accumulated undistributed profits or losses, i.e. balance of Profit and Loss Account :

(1) Transfer of general reserve, accumulated profits, etc. :

General Reserve A/c	Dr. XXX	
Reserve Fund A/c	Dr. XXX	
Profit and Loss A/c	Dr. XXX	
To All Partners' Capital / Current A/cs		XXX

(Being general reserve, accumulated profit transferred)

(2) Transfer of accumulated losses :

All Partners' Capital / Current A/cs	Dr. XXX	
To Profit and Loss A/c		XXX

(Being accumulated losses transferred and debited to all partners' capital/current A/cs in old ratio)

4.6 Revaluation of Assets and Re-assessment of Liabilities :

At the time of retirement of a partner, all the assets and liabilities of the partnership firm are usually revalued and changes in their values are, therefore, effected through a Profit and Loss Adjustment A/c or Revaluation A/c. A reduction in the values of assets and an increase in the values of liabilities are debited to this account while an increase in the values of assets and a reduction in the values of liabilities are credited to this account. The balance of Profit and Loss Adjustment A/c or Revaluation A/c is then transferred to all partners' capital accounts or current accounts in their old profit sharing ratio.

4.7 Adjustment of Capitals :

The continuing partners if they so desire, may make their capitals proportionate to their new profit sharing ratio either through their Current Accounts or Loan Accounts or by actually bringing in or withdrawing cash. In this case, total capital of the new firm is decided and following steps are taken :

(1) From the total capital of the firm, the amount of capital to be maintained in the new firm by each continuing partner is determined as per new profit sharing ratio.

(2) New capital balance i.e. balance as per new profit sharing ratio of each partner is compared with the latest balance in its Capital Account to ascertain surplus or deficit.

(3) Surplus or deficit in each partner's Capital Account is worked out.

(4) Such surplus or deficit of each partner is adjusted through withdrawal in cash or bringing in cash. Such surplus or deficit may be transferred to Current Account or Loan Account as per the decision taken by the continuing partners or as per the provisions made in the Partnership deed.

Pro forma journal entries of adjustment of deficit or surplus :

(1) For payment of Surplus amount :

Continuing Partner's Capital A/c	Dr. XXX	
To Cash / Bank A/c		XXX

(2) For transfer of surplus amount to Current A/c / Loan A/c :

Continuing Partner's Capital A/c	Dr. XXX	
To Continuing Partner's Current A/c / Loan A/c		XXX

(3) For receiving amount of deficit from partner concerned :

Cash / Bank A/c	Dr. XXX	
To Continuing Partner's Capital A/c		XXX

(4) For transfer of deficit to Current A/c / Loan A/c :

Continuing Partner's Current A/c / Loan A/c	Dr. XXX	
To Continuing Partner's Capital A/c		XXX

Ascertainment of retiring partner's share of profit till retirement :

(a) If a partner retires from the firm during the accounting year i.e. on a date other than the Balance Sheet date, the profit or loss for the period for which he was a partner may be calculated on the basis of last year's profit or the average of the profits for the last two to five years.

(b) From the average annual profit of the firm, calculate profit for the proportionate period from the date of last Balance Sheet to the date of retirement of a partner.

(c) Calculate retiring partner's share in that proportionate profit or loss.

(d) To record retiring partner's share in proportionate profit or loss, following accounting entry is to be passed :

(i) For transfer of retiring partner's share in proportionate profit :

Profit and Loss Suspense A/c	Dr.	XXX	
To Retiring Partner's Capital / Current A/c			XXX

(ii) For adjustment of retiring partner's share in proportionate loss :

Retiring Partner's Capital A/c	Dr.	XXX	
To Profit and Loss Suspense A/c			XXX

4.8 Total payable amount to Retiring Partner :

The total amount payable to retiring partner may be paid as per the terms of partnership deed or otherwise as per the mutual agreement among the partners. The partnership firm may pay either full or part of the amount due to retiring partner at the time of retirement and balance if any, is transferred to his Loan A/c. The various types of repayment of retiring partners' dues are explained as follows :

(1) Lumpsum : Under this method, entire amount due to the retiring partner is paid in one instalment or at a time. The journal entry is given as follows :

Payment of retiring partner's dues in one instalment or in lumpsum :

Retiring Partner's Capital A/c	Dr.	XXX	
To Cash / Bank A/c			XXX

(2) Instalment : Under this method, retiring partner's dues are paid in several convenient instalments. Journal entries relating to this are shown below :

(i) For transfer of retiring partner's dues to his loan Account :

Retiring Partner's Capital A/c	Dr.	XXX	
To Retiring Partner's Loan A/c			XXX

(ii) For charging interest on loan amount :

Interest A/c	Dr.	XXX	
To Retiring Partner's Loan A/c			XXX

(iii) For payment of instalment :

Retiring Partner's Loan A/c	Dr.	XXX	
To Cash / Bank A/c			XXX

(3) If the total amount due transferred to Loan A/c :

Retiring Partner's Capital A/c	Dr.	XXX	
To Retiring Partner's Loan A/c			XXX

(4) If part of the total amount due to retiring partner is paid in cash and balance is transferred to his Loan A/c :

Retiring Partner's Capital A/c	Dr.	XXX	
To Cash / Bank A/c			XXX
To Retiring partner's Loan A/c			XXX

- **Accounting steps to record retirement of a partner :** The usual accounting steps for recording the retirement of a partner are stated below :

(1) Prepare ledger accounts like Partner's Capital / Current A/cs, Profit and Loss Adjustment A/c, Cash / Bank A/c, Goodwill A/c, etc.

(2) Transfer opening balances as given in the last Balance Sheet to the respective ledger accounts mentioned above.

(3) Transfer the balances of General Reserve, the Profit and Loss A/c and other undistributed profits or unadjusted losses to All Partners' Capital / Current A/cs in their old profit sharing ratio.

(4) Give accounting treatment to Goodwill.

(5) Revalue the assets and liabilities and transfer resulting profit or loss to All Partners' Capital / Current A/cs (including retiring partner) in their old profit sharing ratio.

(6) Pass an entry for payment made to retiring partner.

(7) Transfer unpaid balance on Retiring Partner's Capital A/c to his Loan A/c.

(8) Balance the Capital A/cs of continuing partners and prepare the Balance Sheet of the firm after retirement of a partner.

SOLVED PROBLEMS

Q. 1. A, B, and C are partners of a firm sharing profit and loss in the 3 : 3 : 2 ratio. Their firms Balance Sheet as on 31st March, 2020 is as under :

Balance Sheet as on 31st March, 2020

Liabilities		Amount (₹)	Assets	Amount (₹)
Bills Payable		11,500	Cash	27,000
General Reserve		20,000	Debtors	62,500
Creditors		43,000	Investments	60,000
Capital Accounts :			Machinery	43,500
A	60,000		Furniture	31,500
B	65,000		Equipments	20,000
C	45,000	1,70,000		
		2,44,500		2,44,500

On 1st April, 2020, C retired from the firm on the following terms :

(1) Outstanding amount of retiring partner C be transferred to his loan account.

(2) Write off ₹ 2,500 as bad debts.

(3) ₹ 500 is now not payable to creditors.

(4) Assets are revalued as under :

Furniture ₹ 30,000, Machinery ₹ 40,000, Equipments ₹ 21,000.

Pass necessary journal entries in the books of firm.

Solution :

Journal Entries in the books of Partnership firm

Date	Particulars	LF	Debit (₹)	Credit (₹)
2020				
April 1	General Reserve A/c Dr.		20,000	
	To A's Capital A/c			7,500
	To B's Capital A/c			7,500
	To C's Capital A/c			5,000
	(Being General Reserve amount distributed among partners in their old ratio)			
1	Revaluation A/c Dr.		7,500	
	To Bad debts A/c			2,500
	To Furniture A/c			1,500
	To Machinery A/c			3,500
	(Being assets depreciated)			
1	Equipment A/c Dr.		1,000	
	Creditors A/c Dr.		500	
	To Revaluation A/c			1,500
	(Being Equipments value appreciated and creditors amount now not payable)			
1	A's Capital A/c Dr.		2,250	
	B's Capital A/c Dr.		2,250	
	C's Capital A/c Dr.		1,500	
	To Revaluation A/c			6,000
	(Being loss on revaluation distributed and transferred to partner's Capital accounts)			
1	C's Capital A/c Dr.		48,500	
	To C's Loan A/c			48,500
	(Being balance amount due to partner C, transferred to his Loan account)			

Working Note :

Dr. **Revaluation Account** **Cr.**

Particulars	Amount (₹)	Particulars		Amount (₹)
To Bad Debts A/c	2,500	By Equipments A/c		1,000
To Furniture A/c	1,500	By Creditors A/c		500
To Machinery A/c	3,500	By Partner's Capital A/c (Loss)		
		A	2,250	
		B	2,250	
		C	1,500	6,000
	7,500			7,500

Dr. **Partners' Capital Accounts** **Cr.**

Particulars	A (₹)	B (₹)	C (₹)	Particulars	A (₹)	B (₹)	C (₹)
To Revaluation A/c	2,250	2,250	1,500	By Balance b/d	60,000	65,000	45,000
To Loan A/c	–	–	48,500	By General Reserve A/c	7,500	7,500	5,000
To Balance c/d	65,250	70,250	–				
	67,500	72,500	50,000		67,500	72,500	50,000

Q. 2. Mukta, Yukta and Sukta were partners sharing profits and losses in the ratio of 5 : 2 : 3. Their Balance Sheet was as follows :

Balance Sheet as on 31st March, 2020

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital A/cs :			Machinery		25,000
Mukta		35,000	Building		50,000
Yukta		40,000	Furniture		10,000
Sukta		25,000	Stock		15,000
Creditors		12,500	Debtors	18,000	
Bills Payable		6,000	Less : R.D.D.	1,000	17,000
General Reserve		12,500	Bank		14,000
		1,31,000			1,31,000

Yukta retired on that date on the following terms :

(1) Machinery is to be depreciated by 10 % and Furniture by 20 %.

(2) Stock is to be appreciated by 10 % and Building by 20 %.

(3) R.D.D. is no longer necessary.

(4) Provision is to be made for ₹ 4,000 being compensation to workers.

(5) The goodwill of the firm is to be valued at ₹ 20,000 and Yukta's share in it should be raised.

(6) Both the remaining partners decided to write off the goodwill.

(7) Amount payable to Yukta is to be kept as her Loan.

Prepare : (1) Profit and Loss Adjustment Account (2) Partners' Capital Accounts (3) New Balance Sheet.

Solution :

In the books of partnership firm
Profit and Loss Adjustment Account

Dr. **Cr.**

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Machinery A/c		2,500	By Stock A/c		1,500
To Furniture A/c		2,000	By Building A/c		10,000
To Provision for Compensation to Workers A/c		4,000	By R.D.D. A/c (Cancelled)		1,000
To Partners' Capital A/cs : (Profit)					
Mukta	2,000				
Yukta	800				
Sukta	1,200	4,000			
		12,500			12,500

Partners' Capital Accounts

Dr. **Cr.**

Particulars	Mukta (₹)	Yukta (₹)	Sukta (₹)	Particulars	Mukta (₹)	Yukta (₹)	Sukta (₹)
To Goodwill A/c (Written off)	2,500	–	1,500	By Balance b/d	35,000	40,000	25,000
To Yukta's Loan A/c	–	47,300	–	By General Reserve A/c	6,250	2,500	3,750
To Balance c/d	40,750	–	28,450	By Profit and Loss Adjustment A/c	2,000	800	1,200
				By Goodwill A/c (Raised)	–	4,000	–
	43,250	47,300	29,950		43,250	47,300	29,950

Balance Sheet as on 1st April, 2020

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Partners' Capital A/cs :			Building	50,000	
Mukta	40,750		Add : Appreciation @ 20 %	10,000	60,000
Sukta	28,450	69,200	Machinery	25,000	
Yukta's Loan A/c		47,300	Less : Depreciation @ 10 %	2,500	22,500
Creditors		12,500	Furniture	10,000	
Bills Payable		6,000	Less : Depreciation @ 20 %	2,000	8,000
Provision for Compensation to			Stock	15,000	
Workers		4,000	Add : Appreciation @ 10 %	1,500	16,500
			Debtors		18,000
			Bank		14,000
		1,39,000			1,39,000

Working Notes :

(1) Yukta's share in firm's Goodwill = $\frac{2}{10} \times 20{,}000$ = ₹ 4,000.

Goodwill to the extent of ₹ 4,000 is credited to Yukta's A/c and then debited to Mukta's Capital A/c and Sukta's Capital A/c in their gain ratio which is equal to new ratio i.e. 5 : 3. Hence, Goodwill debited to Mukta's Capital A/c = $\frac{5}{8} \times 4{,}000$ = ₹ 2,500 and Sukta's A/c = $\frac{3}{8} \times 4{,}000$ = ₹ 1,500.

(2) Provision for compensation to workers ₹ 4,000 is first debited to Profit and Loss Adjustment A/c (as new liability is created) and then it is shown on the Liabilities side of new Balance Sheet.

(3) The cancelled R.D.D. ₹ 1,000 is credited to Profit and Loss Adjustment A/c and Debtors to the extent of ₹ 18,000 are shown on the Assets side of Balance Sheet.

EXERCISE

Q. Objective Type Questions :

(A) Select the most appropriate alternatives from the following and rewrite the sentences :

***(1)** (1) The profit or loss from revaluation on retirement of partner is shared by ....
(a) the remaining partners (b) all the partners (c) only retiring partner (d) bank

(2) Descrease in the value of assets should be .... to Profit and Loss Adjustment Account.
(a) debited (b) credited (c) added (d) equal

(3) The balance of the capital account of retired partner is transferred to his .... account if it is not paid.
(a) loan (b) personal (c) current (d) son's

(4) Gain ratio = ... Ratio less Old Ratio.
(a) New (b) Equal (c) Capital (d) Sacrifice

(5) New Ratio = Old Ratio + ... Ratio.
(a) Gain (b) Capital (c) Sacrifice (d) Current

(6) Apte, Bhate and Chitale are sharing 1 / 2, 3 / 10, and 1 / 5 if Apte retire their new ratio will be ....
(a) 5 : 2 (b) 3 : 2 (c) 5 : 3 (d) 2 : 5

Ans. (1) all the partners (2) debited (3) loan (4) New (5) Gain (6) 3 : 2

(2) (1) A, B and C are partners sharing profits in the ratio of 5 : 3 : 2. If B retires then new ratio will be ....
(a) 5 : 2 (b) 5 : 3 (c) 3 : 2 (d) 1 : 1

(2) When goodwill is raised at its full value and it is written off .... Account is to be credited.
(a) Cash (b) Goodwill (c) all Partners' Capital (d) Loan

(3) Increase in the value of assets should be .... to Profit and Loss Adjsutment Account.
(a) debited (b) credited (c) added (d) none of these

(4) If the goodwill is raised to the extent of retiring partner's share .... account is to be debited.
(a) cash (b) goodwill (c) partner's Capital (d) retiring Partners Capital

(5) A, B and C are partners, sharing profits and losses in the ratio of $\frac{1}{2}$, $\frac{1}{3}$ and $\frac{1}{6}$ respectively, if B retires, the new ratio will be ....
(a) 4 : 1 (b) 3 : 1 (c) 3 : 2 (d) 2 : 1

(6) On retirement of a partner the balance on his Current Account is transferred to his .... Account.
(a) Drawings (b) Capital (c) Wife's Loan (d) Son's

(7) -------- Ratio is a ratio which continuing partners are benefited on retirement of a partner.

(a) New (b) Sacrifice (c) Gain (d) Old

(8) If Goodwill Account is raised only to the extent of retiring partner's share, -------- A/c is credited.

(a) Cash (b) Goodwill (c) All Partners' Capital (d) Retiring Partner's Capital

(9) In the case of retirement of a partner, -------- Account is opened for revaluation of the assets and liabilities.

(a) Revaluation (b) Profit and Loss (c) Current (d) Trading

(10) In the case of retirement of a partner, balance on Revaluation Account is transferred to -------- Accounts.

(a) Retiring Partner's Capital (b) all Partners' Capital
(c) New Partner's Capital (d) Continuing Partners' Capital

(11) Debit balance on Profit and Loss Suspense Account is shown in the new Balance Sheet on -------- side.

(a) Assets (b) Liabilities (c) Debit (d) None of these

Ans. (1) 5 : 2 (2) Goodwill (3) credited (4) goodwill (5) 3 : 1 (6) Capital (7) Gain (8) Retiring Partner's Capital (9) Revaluation (10) all Partners' Capital (11) Assets

(B) * (1) Write the word, term or phrase, which can substitute each of the following statement :

Statement	Ans. (word / phrase / term)
(1) Credit balance of Profit and Loss Adjustment Account.	Profit on Revaluation Accounts
(2) The ratio in which the continuing partners are benefited due to retirement of partner.	Gain Ratio
(3) Debit balance of Revaluation Account.	Loss on Revaluation
(4) The ratio which is obtained by deducting Old Ratio from New Ratio.	Gain Ratio
(5) Money value of business reputation earned by the firm over a number of years.	Goodwill
(6) Partner's Account where Loss or Profit on revaluation is transferred.	Capital / Current Account

(2)

Statement	Ans. (word / phrase / term)
(1) The account which shows revaluation of assets and liabilities.	Revaluation Account or Profit and Loss Adjustment Account
(2) Excess of actual capital over proportionate capital.	Surplus Capital
(3) Process in which a partner leaves the firm permanently on account of old age, continued sickness or loss of interest in the firm.	Retirement of a Partner
(4) Ratio in which the continuing partners share the profit ratio given up by the retiring partner. **OR** The ratio in which goodwill credited to retiring partner is adjusted by the continuing partners.	Gain Ratio **OR** Benefit Ratio
(5) An account to which the amount due to a partner on his retirement is transferred.	Retiring Partner's Loan A/c

(C) * (1) State whether the following statements are True or False with reasons :

(1) Gain ratio means New ratio minus Old ratio.

Ans. This statement is **True.**

As per definition, profit sharing ratio which is acquired by the continuing partners from the retiring partner is called gain ratio. If gain ratio added to old ratio we will get New ratio. It means New ratio = Old ratio + Gain ratio by interchanging the terms, we will get Gain ratio = New ratio – Old ratio.

(2) Retiring partner's share in profit up to the date of his retirement will be debited to Profit and Loss Suspense Account.

Ans. This statement is **True.**

If a partner retires from the firm during the accounting year, the profit or loss for the period from the date of last balance sheet to the date of retirement is calculated on the basis of last year's profit or average profit and it is credited to retiring partner's capital A/c and for time being it debited to new account called Profit and Loss Expense A/c. This is because final accounts cannot be prepared on any date during the accounting year.

(3) On retirement of a partner, sacrifice ratio is considered.

Ans. This statement is **False.**

On retirement of a partner, his share is acquired by continuing partners in certain proportion and it is nothing but gain for them. Therefore, on retirement of a partner instead of sacrifice ratio gain ratio is considered.

(4) Retiring partner is called an outgoing partner.

Ans. This statement is **True.**

When a person retires from the firm due to health issues, financial issues or personal reasons then it is known as person retires from the business and for the business, he is an outgoing partner.

(5) On retirement of a partner, remaining partner will share the goodwill in their profit sharing ratio.

Ans. This statement is **False.**

On retirement of a partner, after giving retiring. partner's share in goodwill and if goodwill is written off, then remaining partners will adjust the goodwill in their new profit sharing ratio. (If raised to full extent and written off)

(6) Retiring partner is not entitled to share in general reserve and accumulated profit.

Ans. This statement is **False.**

General reserve and accumulated profit are created out of past undistributed profit, such profits are the outcome of hard work of all the partners including retiring partner. Hence, retiring partner's has right to share general reserve and accumulated profit. He is therefore, entitled to get share in general reserve and accumlated profit.

(2) (1) Amount due to a retiring partner if not paid, appears as his loan in the books of the firm.

Ans. This statement is **True.**

If in Cash / Bank account, firm has sufficient balance then amount due to a retiring partner is paid by firm immediately. If due to insufficient fund amount due to a retiring partner is not paid and it appears as his loan in the books of the firm.

(2) Revaluation Account is also called Realisation Account.

Ans. This statement is **False.**

The changes in the values of assets or liabilities on revaluation are recorded in the Revaluation Account. At the time of dissolution of firm, when Assets or liabilities are disposed off and whatever amounts are paid or received by the firm are recorded in the Realisation Account. So Revaluation Account and Realisation Account are not same.

(3) Profit on Revaluation Account is transferred to Continuing Partner's Capital Account only.

Ans. This statement is **False.**

Profit on revaluation of assets and liabilities is to be shared by all the partners, including retiring partner. This is because changes in the value of assets and liabilities take place due to hard work of all the partners, including retiring partner.

(4) On retirement of a partner, partnership deed is not changed.

Ans. This statement is **False.**

On retirement of a partner, profit and loss ratio, capital ratio, etc. may get changed. So the partnership deed is suppose to be changed.

(5) A retiring partner is not entitled to share in the goodwill of the firm.

Ans. This statement is **False.**

A retiring partner is entitled to get share in the goodwill of the firm upto the date of retirement as it is his legal right.

(6) If goodwill is written off, Goodwill A/c is credited in the books of the firm.

Ans. This statement is **True.**

When goodwill of the firm is written off then there is no question of any balance in Goodwill Account therefore Goodwill A/c is credited in the books of the firm.

(7) Balance of Retiring Partner's Capital Account is transferred to his Legal Heir's Account.

Ans. This statement is **False.**

If financial position of the firm allowes, balance of Retiring Partner's Capital Account is given immediately to retiring partner, otherwise it will be transferred to Retiring Partner's Loan Account.

(8) The Capital A/c of retiring partner always shows a debit balance.

Ans. This statement is **False.**

The Capital A/c of retiring partner may shows debit or credit balance depends upon the amount withdrawn by retiring partner.

(9) Retirement of partner leads to dissolution of the firm unless otherwise agreed upon.

Ans. This statement is **True.**

At the time of retirement of a partner, continuing partners don't want to continue the business activities of the firm, then only it leads to dissolution of the firm.

(D) * (1) Fill in the blanks and rewrite the following sentences :

(1) New Ratio (less) .... = Gain ratio.

(2) Retiring partner's share of goodwill is .... to remaining Partner's Capital Account.

(3) Revaluation A/c is also known as .... Account.

(4) On retirement, the balance at a Current Account of a partner is transferred to his .... Account.

(5) A proportion in which the continuing partners get the share of retiring partner is known as .... Ratio.

Ans. (1) Old ratio (2) debited (3) Profit and Loss Adjustment (4) Capital (5) Gain

(2) (1) On retirement of a partner, partnership deed is .... changed.

(2) A retiring partner is .... to get his share in general reserve / accumulated profit.

(3) A .... balance of Revaluation Account means loss on revaluation.

(4) Goodwill A/c is .... in the books of the firm, when goodwill is written off.

(5) Revaluation of Assets and Liabilities is recorded in .... Account.

(6) The amount due to a partner on his retirement is transferred to .... Account.

(7) An amount payable to the retiring partner is paid off at a time is known as .... Method.

(8) Excess of actual capital over proportional capital is known as ....

(9) Credit balance of Revaluation Account means .... on revaluation.

(10) Credit balance on Profit and Loss Suspense Account is shown in the Balance Sheet on .... side.

Ans. (1) not (2) entitled (3) debit (4) credited (5) Revaluation (6) Partner's Capital (7) Lumpsum (8) Surplus (9) profit (10) Liabilities

(E) * (1) Answer the following :

(1) What is meant by Retirement of a Partner ?

Ans. Retirement of a partner refers to a process in which a partner leaves the firm or severes his relations with other partners on account of his old age, continued ill health, loss of interest in the firm, misunderstanding amongst the partners, etc.

(2) What is Benefit Ratio ?

Ans. Profit sharing ratio which is acquired by the continuing partners on account of retirement or death of a partner is called Benefit Ratio or Gain Ratio.

(3) What is New Ratio ?

Ans. The ratio in which profits or losses are shared by the continuing partners after retirement of a partner is called New Profit Sharing Ratio.

(4) How is the amount due to the retiring partner settled ?

Ans. The amount due to a retiring partner is settled as per the terms of partnership agreement or otherwise mutually agreed upon either in lumpsum or in instalments.

(5) How is Gain Ratio calculated ?

Ans. Gain ratio is calculated at the time of retirement of a partner by deducting old ratio from new ratio.

(6) Why is retiring partner's capital account credited with goodwill ?

Ans. Goodwill is an intangible assets or benefits accrued to the firm and its benefits are transferred to retiring partner's Capital A/c by giving credit.

(2) **(1) Who is a retiring partner ?**

Ans. A partner who leaves the firm or severs his connection or relationship with other partners on account of old age or continued ill health or loss of interest in the firm or similar other reasons, is called retiring partner.

(2) How would you treat general reserve on retirement of a partner ?

Ans. General reserve appearing on the liabilities side of the Balance Sheet may be credited to all the partners' Capital Accounts in their old profit sharing ratio or only the share of retiring partner is credited to his Capital Account, depending on the provisions made in the partnership deed.

(3) When is the gain ratio calculated ?

Ans. Gain ratio is calculated when a firm raises goodwill to the extent of retiring partner's share and then intends to write off the goodwill so raised.

(4) To which account, increase in the value of assets credited at the time of retirement of a partner?

Ans. Increase in the values of assets are credited to Profit and Loss Adjustment A/c or Revaluation A/c at the time of retirement of a partner.

(5) How would you adjust retiring partner's share of goodwill without opening Goodwill A/c ?

Ans. Adjustment of retiring partner's share of goodwill without opening Goodwill Account is done by debiting continuing Partners' Capital / Current Accounts in their gain ratio and crediting Retiring Partners' Capital / Current Account with that amount.

(6) To which account is the outstanding amount due to retiring partner transferred ?

Ans. The outstanding amount due to retiring partner is transferred to the retiring partner's Loan Account.

SOLUTIONS OF TEXTUAL PROBLEMS

*** Q. 1. The Balance Sheet of Mr Mama, Kaka and Mr Baba who shared profits and losses as 4 : 3 : 3 respectively.**

Balance Sheet as on 31st March, 2018

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Suppliers		7,000	Cash		4,500
Loan		5,000	Sundry Debtors	5,000	
General Reserve		6,250	Less : R.D.D.	500	4,500
Capital Accounts :			Live Stock		12,500
Mama		20,000	Motor Car		4,000
Kaka		15,000	Furniture		17,500
Baba		12,250	Plant		22,500
		65,500			65,500

Kaka retires on 1st April, 2018 on the following terms :

(1) The share of Kaka in Goodwill of the firm is valued at ₹ 2,700.

(2) Furniture to be depreciated by 10 % and Motor car by 12.5 %.

(3) Live Stock to be appreciated by 10 % and Plant by 20 %.

(4) A provision of ₹ 2,000 to be made for a claim of compensation.

(5) R.D.D. is no longer necessary.

(6) The amount payable to Kaka should be transferred to his Loan A/c.

Prepare Profit and Loss Adjustment A/c, Partners' Capital A/cs and Balance Sheet of the new firm.

Solution :

In the books of Partnership Firm

Dr. Profit and Loss Adjustments Account **Cr.**

Particulars		Amount (₹)	Particulars	Amount (₹)
To Furniture A/c		1,750	By Live Stock A/c	1,250
To Motor Car A/c		500	By Plant A/c	4,500
To Provision for Claim A/c		2,000	By R.D.D. A/c	500
To Partners' Capital A/cs : Profit				
Mama	800			
Kaka	600			
Baba	600	2,000		
		6,250		6,250

Balance Sheet as on 1st April, 2018

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Partners' Capital A/cs :			Furniture	17,500	
Mama	23,300		Less : Depreciation	1,750	15,750
Baba	14,725	38,025	Motor Car	4,000	
Kaka's Loan A/c		20,175	Less : Depreciation	500	3,500
Suppliers		7,000	Sundry Debtors		5,000
Loan		5,000	Live Stock	12,500	
Provision for Claim		2,000	Add : Appreciation	1,250	13,750
			Plant	22,500	
			Add : Appreciation	4,500	27,000
			Cash		4,500
			Goodwill		2,700
		72,200			72,200

Dr. Partners' Capital Accounts **Cr.**

Particular	Mama (₹)	Kaka (₹)	Baba (₹)	Particulars	Mama (₹)	Kaka (₹)	Baba (₹)
To Loan A/c	–	20,175	–	By Balance b/d	20,000	15,000	12,250
To Balance c/d	23,300	–	14,725	By General Reserve A/c	2,500	1,875	1,875
				By Profit and Loss Adjustment A/c (Profit)	800	600	600
				By Goodwill A/c	–	2,700	–
	23,300	20,175	14,725		23,300	20,175	14,725

Working Notes :

(1) R.D.D. is no longer require means it is a gain for firm.

(2) A provision of ₹ 2,000 to be made for a claim of compensation, ₹ 2,000 is recorded on debit side of Profit and Loss Adjustments A/c and then on liability side of Balance Sheet.

(3) Total payable amount to Kaka ₹ 20,175 is recorded as Kaka's Loan A/c.

*** Q. 2. The Balance Sheet of Ram, Shyam and Ghanshyam sharing profits and losses in 3 : 2 : 1 respectively and their position on 31 – 3 – 19 were / as follows :**

Balance Sheet as on 31st March, 2019

Liabilities	Amount (₹)	Assets	Amount (₹)
Capitals :		Bank	54,000
Ram	1,20,000	Debtors	90,000
Shyam	90,000	Building	60,000
Ghanshyam	60,000	Investment	1,50,000
Creditors	22,000		
Bills Payable	12,000		
Loan	50,000		
	3,54,000		3,54,000

Ghanshyam retired on 1st April, 2019 on the following terms :

(1) Building and Investment to be appreciated by 5 % and 10 % respectively.

(2) Provision for Doubtful Debts to be created at 5 % on Debtors.

(3) The provision of ₹ 3,000 be made in respect of Outstanding Salary.

(4) Goodwill of the firm is valued at ₹ 90,000 and partners decide that goodwill should be written back.

(5) The amount payable to the retiring partner be transferred to his Loan A/c.

Prepare : Profit and Loss Adjustment A/c, Partners' Capital A/c, Balance Sheet of new firm.

Solution : **In the books of Partnership Firm**

Dr. **Profit and Loss Adjustment Account** **Cr.**

Particulars		Amount (₹)	Particulars	Amount (₹)
To R.D.D. A/c		4,500	By Building A/c	3,000
To Provision for Outstanding Salary A/c		3,000	By Investments A/c	15,000
To Partners' Capital A/cs : Profit				
Ram	5,250			
Shyam	3,500			
Ghanshyam	1,750	10,500		
		18,000		18,000

Dr. **Partners' Capital Accounts** **Cr.**

Particulars	Ram (₹)	Shyam (₹)	Ghanshyam (₹)	Particulars	Ram (₹)	Shyam (₹)	Ghanshyam (₹)
To Loan A/c	–	–	76,750	By Balanced b/d	1,20,000	90,000	60,000
To Goodwill A/c	9,000	6,000	–	By Profit and Loss Adjustment A/c (Profit)	5,250	3,500	1,750
To Balance c/d	1,16,250	87,500	–	By Goodwill A/c	–	–	15,000
	1,25,250	93,500	76,750		1,25,250	93,500	76,750

Balance Sheet as on 1st April, 2019

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Partners' Capital A/cs :			Bank		54,000
Ram	1,16,250		Debtors	90,000	
Shyam	87,500	2,03,750	Less : R.D.D. (5 %)	4,500	85,500
Ghanshyam's Loan A/c		76,750	Building	60,000	
Creditors		22,000	Add : Appreciation	3,000	63,000
Bills Payable		12,000	Investments	1,50,000	
Loan		50,000	Add : Appreciation	15,000	1,65,000
Provision for Outstanding Salary		3,000			
		3,67,500			3,67,500

Working Notes :

(1) Provision of ₹ 3,000 for outstanding salary is recorded on debit side of Profit and Loss Adjustment A/c and then on the Liability side of Balance Sheet.

(2) Goodwill of the firm is valued at ₹ 90,000 and share of retiring partner in it is ₹ 15,000 ($\frac{1}{6}$ th part) and it is to be written back means it is to be shared by remaining partners in their profit-loss ratio.

*** Q. 3. The Balance Sheet of the Anu, Renu and Dinu is as follows, and the partners are sharing profits and losses in the proportion of 2 : 2 : 1 respectively.**

Balance Sheet as on 31st March, 2019

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Creditors		8,000	Bank		5,000
Bills Payable		2,000	Debtors	20,000	
General Reserve		5,000	Less : R.D.D.	1,000	19,000
Capital Accounts :			Furniture		15,000
Anu		40,000	Machinery		4,000
Renu		30,000	Freehold Property		27,000
Dinu		15,000	Goodwill		30,000
		1,00,000			1,00,000

Dinu retires from the firms on 1st April, 2019 on the following terms :

(1) The assets are to be revalued as : freehold property ₹ 30,000, Machinery ₹ 5,000, Furniture ₹ 12,000, All debtors are good.

(2) Goodwill of the firm be valued at thrice the average profit for preceding five years. Profits of the firm for the year.

2014–15	₹ 1,000	2015–16	₹ 10,500	2016–17	₹ 10,000
2017–18	₹ 16,000	2018–19	₹ 10,000		

(3) Dinu should be paid ₹ 3,000 by cheque.

(4) The Balance of Dinu's Capital A/c should be kept in the business as loan.

Prepare : Profit and Loss Adjustment A/c, Capital Accounts of Partners, Balance Sheet of the new firm.

Solution :

In the books of Partnership Firm

Dr. **Profit and Loss Adjustment Account** **Cr.**

Particulars		Amount (₹)	Particulars	Amount (₹)
To Furniture A/c		3,000	By Freehold Property A/c	3,000
To Goodwill – Loss		1,500	By Machinery A/c	1,000
To Partners' Capital A/cs : Profit			By R.D.D. A/c	1,000
Anu	200			
Renu	200			
Dinu	100	500		
		5,000		5,000

Dr. **Partners' Capital Accounts** **Cr.**

Particulars	Anu (₹)	Renu (₹)	Dinu (₹)	Particulars	Anu (₹)	Renu (₹)	Dinu (₹)
To Bank A/c	–	–	3,000	By Balance b/d	40,000	30,000	15,000
To Loan A/c	–	–	13,100	By General Reserve A/c	2,000	2,000	1,000
To Balance c/d	42,200	32,200	–	By Profit and Loss Adjustment A/c (Profit)	200	200	100
	42,200	32,200	16,100		42,200	32,200	16,100

Balance Sheet as on 1st April, 2019

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Partners' Capital A/cs :			Bank		2,000
Anu	42,200		Debtors		20,000
Renu	32,200	74,400	Furniture	15,000	
Dinu's Loan A/cs		13,100	Less : Depreciation	3,000	12,000
Creditors		8,000	Machinery	4,000	
Bills Payable		2,000	Add : Appreciation	1,000	5,000
			Freehold Property	27,000	
			Add : Appreciation	3,000	30,000
			Goodwill		28,500
		97,500			97,500

Working Notes :

(1) Average profit $= \dfrac{\text{Total Profit}}{\text{No. of year}}$

$$= \frac{1000 + 10{,}500 + 10{,}000 + 16{,}000 + 10{,}000}{5}$$

$$= \frac{47{,}500}{5} = ₹\ 9{,}500$$

Goodwill = Avg. profit × No. of years

= 9,500 × 3 years = ₹ 28,500

Goodwill value given in balance sheet = ₹ 30,000

New value arrived at = ₹ 28,500

Loss due to revaluation ₹ 1,500

To be recorded in P & L Adj. A/c – Dr. Side.

In asset side of Balance sheet, write ₹ 28,500 for Goodwill.

(2) Balance of Bank A/c = Op. Balance – Cheque given to Dinu

= 5,000 – 3,000

= ₹ 2,000

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* **Q. 4. Rohan, Rohit and Sachin are partners in a firm sharing profits and losses in the proportion 3 : 1 : 1 respectively. Their balance sheet as on 31st March, 2018 is as shown below :**

Balance Sheet as on 31st March, 2018

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	40,000	Bank	12,500
General Reserve	50,000	Debtors	60,000
Bills Payable	25,000	Live Stock	50,000
Capital Accounts :		Building	75,000
Rohan	1,25,000	Plant and Machinery	35,000
Rohit	1,00,000	Motor Truck	1,00,000
Sachin	50,000	Goodwill	57,500
	3,90,000		3,90,000

On 1st April, 2018 Sachin retired and the following adjustments have been agreed upon :

(1) Goodwill was revalued on ₹ 50,000.

(2) Assets and Liabilities were revalued as follows :

Debtors ₹ 50,000, Live stock ₹ 45,000, Building ₹ 1,25,000, Plant and Machinery ₹ 30,000, Motor truck ₹ 95,000 and Creditors ₹ 30,000.

(3) Rohan and Rohit contributed additional capital through Net Banking of ₹ 50,000 and ₹ 25,000 respectively.

(4) Balance of Sachin's Capital Account is transferred to his Loan Account.

Give Journal entries in the books of new firm.

Solution :

Journal entries in the books of Partnership Firm

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2018 April 1	General Reserve A/c Dr. To Rohan's Capital A/c To Rohit's Capital A/c To Sachin's Capital A/c (Being General Reserve distributed among partners)		50,000	 30,000 10,000 10,000
1	Revaluation A/c Dr. To Debtors A/c To Live Stock A/c To Plant and Machinery A/c To Motor Truck A/c To Goodwill A/c (Being assets depreciated)		32,500	 10,000 5,000 5,000 5,000 7,500
1	Building A/c Dr. Creditors A/c Dr. To Revaluation A/c (Being Building appreciated and Creditors amount is payable less)		50,000 10,000	 60,000
1	Revaluation A/c Dr. To Rohan's Capital A/c To Rohit's Capital A/c To Sachin's Capital A/c (Being Profit on revaluation distributed and transferred to Capital accounts)		27,500	 16,500 5,500 5,500
1	Bank A/c Dr. To Rohan's Capital A/c To Rohit's Capital A/c (Being additional capital brought by partners)		75,000	 50,000 25,000
1	Sachin's Capital A/c Dr. To Sachin's Loan A/c (Being balance of Sachin's Capital A/c transferred to Sachin's Loan A/c)		65,500	 65,500

Working Notes :

(1) Calculation of Profit on Revaluation of Assets and Liabilities.

Dr. **Revaluation Account** Cr.

Particulars		Amount (₹)	Particulars	Amount (₹)
To Debtors A/c		10,000	By Building A/c	50,000
To Live Stock A/c		5,000	By Creditors A/c	10,000
To Plant and Machinery A/c		5,000		
To Motor Truck A/c		5,000		
To Goodwill A/c		7,500		
To Partners' Capital A/cs : Profit				
Rohan	16,500			
Rohit	5,500			
Sachin	5,500	27,500		
		60,000		60,000

Dr. **Partners' Capital Accounts** Cr.

Particulars	Rohan (₹)	Rohit (₹)	Sachin (₹)	Particulars	Rohan (₹)	Rohit (₹)	Sachin (₹)
To Loan A/c	–	–	65,500	By Balance b/d	1,25,000	1,00,000	50,000
To Balance c/d	2,21,500	1,40,500	–	By General Reserve A/c	30,000	10,000	10,000
				By Revaluation A/c (Profit)	16,500	5,500	5,500
				By Bank A/c	50,000	25,000	–
	2,21,500	1,40,500	65,500		2,21,500	1,40,500	65,500

* **Q. 5. Shah, Lodha and Dhole were partners sharing profits and losses in the ratio of 4 : 3 : 3. Their Balance Sheet as on 31st March, 2019 is given below :**

Balance Sheet as on 31st March, 2019

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Sundry Creditors		20,000	Cash		9,000
Bills Payable		4,000	Sundry Debtors	10,000	
Capital Accounts :			Less : R.D.D.	1,000	9,000
Shah		45,000	Furniture		25,000
Lodha		35,000	Computers		43,000
Dhole		27,000	Vehicles		45,000
		1,31,000			1,31,000

On 1st April, 2019 Mr Lodha retired from the firm on the following terms :

(1) Goodwill is to be valued at an average profits and losses of the last five years which were as follows :

Year	Profit / Loss	Year	Profit / Loss
2015	₹ 35,000	2018	₹ 20,000
2016	₹ 20,000	2019	₹ 25,000
2017	₹ 30,000		

(2) Computers to be depreciated by 10 %.

(3) Furniture to be revalued at ₹ 27,500.

(4) Vehicles appreciated by 20 %.

(5) R.D.D. was no longer necessary.

(6) Shah and Dhole will share the future profits and losses in the ratio of 2 : 1.

(7) It was decided that goodwill should not appear in the books of a new firm and amount payable to Lodha is to be transferred to his Loan A/c.

Prepare : Profit and Loss Adjustment A/c, Partners' Capital Accounts, Balance Sheet of new firm.

Solution :

In the books of Partnership Firm

Dr. **Profit and Loss Adjustment Account** **Cr.**

Particulars		Amount (₹)	Particulars	Amount (₹)
To Computers A/c		4,300	By Furniture A/c	2,500
To Partners' Capital A/cs : Profit			By Vehicles A/c	9,000
Shah	3,280		By R.D.D. A/c	1,000
Lodha	2,460			
Dhole	2,460	8,200		
		12,500		12,500

Dr. **Partner's Capital Account** **Cr.**

Particulars	Shah (₹)	Lodha (₹)	Dhole (₹)	Particulars	Shah (₹)	Lodha (₹)	Dhole (₹)
To Goodwill A/c	17,333	–	8,667	By Balance b/d	45,000	35,000	27,000
To Balance c/d	41,347	45,260	28,593	By Profit and Loss Adjustment A/c (Profit)	3,280	2,460	2,460
To Lodha's Loan A/c	–	–	–	By Goodwill A/c	10,400	7,800	7,800
	58,680	45,260	37,260		58,680	45,260	37,260

Balance Sheet as on 1st April, 2019

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Partners' Capital A/cs :			Cash		9,000
Shah	41,347		Debtors		10,000
Dhole	28,593	69,940	Furniture	25,000	
Lodha's Loan A/c		45,260	Add : Appreciation	2,500	27,500
Sundry Creditors		20,000	Computers	43,000	
Bills Payable		4,000	Less : Depreciation	4,300	38,700
			Vehicles	45,000	
			Add : Appreciation	9,000	54,000
		1,39,200			1,39,200

Working Note :

$$\text{Average profit} = \frac{\text{Total Profit}}{\text{No. of Years}}$$

$$= \frac{35{,}000 + 20{,}000 + 30{,}000 + 20{,}000 + 25{,}000}{5}$$

$$= \frac{1{,}30{,}000}{5} = ₹\ 26{,}000$$

∴ Goodwill = ₹ 26,000

Goodwill should not appear in the books of accounts.

Therefore, ₹ 26,000 credited in Partners' Capital Account in partners' old profit and loss ratio.

₹ 26,000 will be debited in Partners' Capital Account in partners' new profit-loss ratio.

PROBLEMS FOR PRACTICE

Q. 1. Following is the Balance Sheet of the firm of Sonu, Monu and Keyur who share profits and losses in the ratio of 5 : 2 : 3 :

Balance Sheet as on 31st March, 2019

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital A/cs :			Plant		20,000
Sonu		50,000	Land and Building		55,000
Monu		20,000	Stock		12,000
Keyur		30,000	Debtors	12,000	
Creditors		15,000	Less : R.D.D.	1,000	11,000
			Bank Balance		17,000
		1,15,000			1,15,000

Keyur retires from the business on 31st March, 2019 and the following adjustments were agreed :

(1) The stock is to be valued at 92 % of its book value.

(2) R.D.D. is to be maintained at 10 % on debtors.

(3) The value of Land and Building is to be appreciated by 20 %.

(4) The goodwill of the firm be fixed at ₹ 12,000.

Keyur's share in the same be adjusted in the account of continuing partners in gain ratio.

(5) The entire capital of the new firm be fixed at ₹ 1,60,000 between Sonu and Monu in their new profit sharing ratio which is fixed at 3 : 1 by making adjustment for difference in cash and amount payable to Keyur paid in cash.

Prepare : Profit and Loss Adjustment Account, Partners' Capital Accounts and Balance Sheet after retirement of Keyur.

[**Ans.** (1) Profit on Revaluation = ₹ 9,840; Division of Profit : Sonu = ₹ 4,920, Monu = ₹ 1,968 and Keyur = ₹ 2,952. (2) Capital closing balances : Sonu = ₹ 1,20,000 and Monu = ₹ 40,000. (3) Cash paid to Keyur at the time of retirement = ₹ 36,552. (4) Additional capital contributed : Sonu = ₹ 68,080 and Monu = ₹ 18,632. (5) Bank balance at the end = ₹ 67,160. (6) Balance Sheet total = ₹ 1,75,000].

[**Hints :**

(1) Gain ratio of Sonu and Monu = 5 : 1 respectively. New ratio of Sonu and Monu = 3 : 1.

Sonu's Gain ratio = $\frac{3}{4} - \frac{5}{10} = \frac{5}{20}$. Monu's Gain ratio = $\frac{1}{4} - \frac{2}{10} = \frac{1}{20}$ i.e. 5 : 1.

(2) Keyur's share in Goodwill = 12,000 × $\frac{3}{10}$ = ₹ 3,600

Adjustment of Goodwill : Sonu = $\frac{5}{6}$ × 3,600 = ₹ 3,000 and Monu = $\frac{1}{6}$ × 3,600 = ₹ 600.

(3) Division of capital fixed at ₹ 1,60,000 : Sonu = $\frac{3}{4}$ × 1,60,000 = ₹ 1,20,000 and

Monu = $\frac{1}{4}$ × 1,60,000 = ₹ 40,000.

(4) Bank balance at the end = 17,000 + (68,080 + 18,632) – 36,552 = ₹ 67,160.]

Q. 2. Dave, Desai and Patel are partners in a firm sharing profits and losses in the proportion of 2 : 2 : 1 respectively. Their Balance Sheet as on 31st March 2020 is as follows :

Balance Sheet as on 31st March, 2020

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	42,000	Cash	43,750
Profit and Loss A/c	45,000	Debtors	18,000
Outstanding Expenses	27,500	Stock	45,000
Capital A/cs :		Building	2,22,500
Dave	1,37,500	Plant	1,10,500
Desai	2,30,000	Vehicle	1,30,000
Patel	1,75,000	Goodwill	87,250
	6,57,000		6,57,000

On above date, Dave retired and the following adjustments have been agreed upon :

(1) Goodwill was revalued at ₹ 94,500.

(2) Assets and Liabilities were revalued as under :

Debtors ₹ 16,000; Stock at 90 % of book value; Building ₹ 2,37,500; Plant ₹ 99,000; Vehicles ₹ 1,28,500; Outstanding expenses ₹ 24,500.

(3) Desai and Patel contributed additional capital of ₹ 45,000 and ₹ 37,500 respectively.

(4) Balance due to Dave is transferred to his Loan Account after paying him ₹ 46,800.

Prepare : Revaluation A/c, Partners' Capital A/cs and Balance Sheet of the new firm.

[**Ans.** (1) Profit on Revaluation : ₹ 5,750; Division of Profit : Dave = ₹ 2,300, Desai = ₹ 2,300 and Patel = ₹ 1,150. (2) Capital A/cs balance : Desai = ₹ 2,95,300 and Patel = ₹ 2,22,650. (3) Balance amount due to Dave transferred to his loan A/c = ₹ 1,11,000. (4) Cash balance = ₹ 79,450. (5) Balance Sheet total : ₹ 6,95,450.]

[**Note :** *Increase in the value of goodwill ₹ 7,250 is credited to Profit and Loss Adjustment A/c. Alternatively, increase in goodwill of ₹ 7,250 may be credited to All Partners' Capital A/cs in their old ratio.*]

Q. 3. Following is the Balance Sheet of Kalpana, Bela and Chetana, sharing profits and losses as $\frac{4}{7}$, $\frac{2}{7}$ and $\frac{1}{7}$ respectively :

Balance Sheet as on 31st March, 2020

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Sundry Creditors		90,000	Cash		1,66,000
General Reserve		70,000	Sundry Debtors		82,000
Bills Payable		45,000	Motor Van		1,34,000
Capital A/cs :			Machinery		2,53,000
Kalpana	4,60,000		Land and Building		4,40,000
Bela	4,40,000		Stock		90,000
Chetana	2,40,000	11,40,000	Goodwill		1,80,000
		13,45,000			13,45,000

Bela retires from the business on the above date and the following adjustments are made :

(1) The firm's goodwill is revalued at ₹ 2,48,000.

(2) The assets and liabilities are revalued as follows :

Debtors ₹ 77,000, Machinery ₹ 2,50,000 and Creditors ₹ 80,000.

(3) Kalpana brings in ₹ 80,000 and Chetana brings in ₹ 50,000 as additional capital.

(4) Bela is repaid ₹ 92,400 in cash and the balance on her Capital A/c is transferred to her Loan A/c.

Prepare : Profit and Loss Adjustment A/c, Capital A/cs of the partners and the Balance Sheet of the new firm after Bela's retirement.

[**Ans.** (1) Profit on Revaluation = ₹ 70,000; Division of Profit : Kalpana = ₹ 40,000; Bela = ₹ 20,000 and Chetana = ₹ 10,000. (2) Balance in Capital A/cs : Kalpana = ₹ 6,20,000 and Chetana = ₹ 3,10,000. (3) Loan from Bela = ₹ 3,87,600. (4) Cash balance = ₹ 2,03,600. (5) Balance Sheet total = ₹ 14,42,600.]

[**Hint :**

Increase in the value of goodwill of ₹ 34,000 is credited to Profit and Loss Adjustment A/c. *Alternatively, increase in goodwill may be credited to Partners' Capital A/cs in their old ratio.*]

Q. 4. Samir, Rakesh and Toni were partners in a firm sharing profits and losses in the proportion of 5 : 3 : 2 respectively. Their Balance Sheet as on 31st March, 2020 was as follows :

Balance Sheet as on 31st March, 2020

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	27,600	Cash	39,000
General Reserve	72,000	Debtors	14,400
Bills Payable	24,000	Stock	24,000
Capital A/cs :		Land and Buildings	1,38,000
Samir	1,50,000	Machinery	68,400
Rakesh	84,000	Motor Van	84,000
Toni	66,000	Goodwill	55,800
	4,23,600		4,23,600

On 1st April, 2020 Toni retired and the following adjustments have been agreed upon :

(1) Goodwill was revalued at ₹ 72,000.

(2) Assets and Liabilities were revalued as follows :

Debtors ₹ 13,200; Stock ₹ 28,800; Land and Building ₹ 1,50,000; Machinery ₹ 67,200; Motor van ₹ 82,800; Creditors ₹ 25,200.

(3) Samir and Rakesh contributed additional capital of ₹ 24,000 and ₹ 18,000 respectively.

(4) Balance of Toni's Capital account was transferred to his Loan account.

Prepare : (a) Profit and Loss Adjustment A/c. (b) Partners' Capital A/cs. (c) Balance Sheet of new firm.

[**Ans.** (1) Revaluation Profit : ₹ 31,800; Division of Profit : Samir = ₹ 15,900, Rakesh = ₹ 9,540 and Toni = ₹ 6,360. (2) Balance in Capital A/cs : Samir = ₹ 2,25,900 and Rakesh = ₹ 1,33,140. (3) Loan of Toni = ₹ 86,760. (4) Cash balance = ₹ 81,000. (5) Balance Sheet total = ₹ 4,95,000.]

Q. 5. Zalak, Archana and Nazu are the partners sharing profits and losses in the ratio of 2 : 2 : 1 respectively. Their Balance Sheet as on 31st March, 2020 :

Balance Sheet as on 31st March, 2020

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital A/cs :			Goodwill		80,000
Zalak		1,52,000	Freehold Property		2,15,000
Archana		1,40,000	Investments		60,000
Nazu		1,15,000	Closing Stock		50,000
General Reserve		40,000	Sundry Debtors	30,000	
Sundry Creditors		45,000	Less : R.D.D. @ 20 %	6,000	24,000
			Cash		63,000
		4,92,000			4,92,000

Nazu retires from the partnership firm on 1st April, 2020, on the following terms :

(1) Assets are revalued as : Freehold property ₹ 2,30,000; Investment ₹ 65,000 and Closing stock ₹ 54,000.

(2) Reserve for bad debts be made up to 10 % on sundry debtors.

(3) Goodwill of the firm is to be valued at thrice the average profit for the preceding five years. Profits were :

Year	2014–15	2015–16	2016–17	2017–18	2018–19
Profit ₹	36,000	20,000	45,000	39,000	40,000

(4) An amount of ₹ 25,000 is paid to Nazu in cash and the balance of his Capital Account be transferred to her Loan Account.

Prepare : Profit and Loss Adjustment A/c, Partners' Capital A/cs, Balance Sheet after retirement of Nazu.

[**Ans.** (1) Profit on Revaluation = ₹ 55,000; Division of Profit : Zalak = ₹ 22,000; Archana = ₹ 22,000 and Nazu = ₹ 11,000. (2) Capital Balances : Zalak = ₹ 1,90,000, Archana = ₹ 1,78,000. (3) Nazu's Loan A/c = ₹ 1,09,000. (4) Cash balance ₹ 38,000. (5) Balance Sheet total = ₹ 5,22,000.]

[**Hint :**

Increase in the value of Goodwill of ₹ 28,000 is credited to Profit and Loss Adjustment A/c.]

Q. 6. The Balance Sheet of Sunil, Samir and Divya who are sharing profits and losses as 3 : 2 : 1 is as follows :

Balance Sheet as on 31st March, 2020

Liabilities	**Amount (₹)**	**Assets**	**Amount (₹)**
Capital A/cs :		Cash	1,28,100
Sunil	1,68,000	Debtors	58,500
Samir	1,63,500	Stock	1,14,000
Divya	1,59,000	Plant and Machinery	3,22,500
Creditors	70,800		
Bills Payable	61,800		
	6,23,100		6,23,100

Divya retires from the business on the above date on the following terms :

(1) Stocks and Plant and Machinery are to be appreciated by 5 % and 10 % respectively.

(2) Provision for doubtful debt is to be created at 5 % on debtors.

(3) The provision of ₹ 6,450 is to be made in respect of outstanding rent.

(4) Goodwill of the firm is valued at ₹ 1,03,500 and remaining partners decide that goodwill should be written back.

(5) An amount of ₹ 60,000 is paid to Divya and balance due to her is transferred to her Loan A/c.

Prepare : Profit and Loss Adjustment A/c, Partners' Capital A/cs, Balance Sheet of Sunil and Samir.

[**Ans.** (1) Profit on Revaluation = ₹ 28,575; Division of Profit : Sunil = ₹ 14,287; Samir = ₹ 9,528 and Divya = ₹ 4,763. (2) Capital balances : Sunil = ₹ 1,71,937, Samir = ₹ 1,66,125. (3) Loan from Divya = ₹ 1,21,012. (4) Balance Sheet total = ₹ 5,98,125.]

[**Hint :**

Provision for outstanding rent of ₹ 4,300 is to be first debited to Profit and Loss Adjustment A/c and then it is to be shown on Liabilities side of Balance Sheet.]

Q. 7. The Balance Sheet of Amrish, Alpesh and Kushal who are sharing profits and losses in the proportion of 3 : 2 : 1 is as follows :

Balance Sheet as on 31st March, 2020

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital A/cs :		Cash	40,800
Amrish	1,20,000	Debtors	48,000
Alpesh	80,000	Stock	42,000
Kushal	40,000	Plant and Machinery	1,30,000
Creditors	44,400	Bills Receivable	24,000
Bank Overdraft	42,400	Profit and Loss A/c	42,000
	3,26,800		3,26,800

Kushal retires from the business on the above date on the following terms :

(1) Stock is valued at ₹ 40,000 and Plant and Machinery is depreciated by 10 %.

(2) Provision for doubtful debts is to be created at 5% on debtors. An item of creditors worth ₹ 4,400 is not likely to be claimed. Hence should be written off.

(3) The provision of ₹ 2,600 be made in respect of outstanding expenses.

(4) Goodwill of the firm is valued at ₹ 48,000 and remaining partners decide that goodwill should not appear in the books of the firm. Interest amounted ₹ 552 is due on Bank Overdraft.

(5) An amount of ₹ 15,000 paid to Kushal and balance amount payable to him is transferred to his Loan Account.

Prepare : (1) Profit and Loss Adjustment A/c. (2) Partners' Capital A/cs. (3) Balance Sheet of new firm.

[**Ans.** (1) Loss on Revaluation = ₹ 16,152; Division of Loss : Amrish = ₹ 8,076; Alpesh = ₹ 5,384 and Kushal = ₹ 2,692. (2) Balance in Capital A/cs : Amrish = ₹ 86,124, Alpesh = ₹ 57,416. (3) Loan of Kushal = ₹ 23,308. (4) Balance Sheet total = ₹ 2,52,400.]

[**Hints :**

(1) Goodwill is raised to its full value of ₹ 48,000 and credited to all Partners' Capital A/cs in their old ratio i. e. 3 : 2 : 1.

(2) Goodwill is then written off and debited to Amrish = ₹ 28,800 and Alpesh = ₹ 19,200 i.e., in their new ratio of 3 : 2.]

Q. 8. The Balance Sheet of X, Y and Z who are sharing profits and losses in the ratio of 5 : 2 : 3 is as follows :

Balance Sheet as on 31st March, 2019

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Creditors		22,600	Cash at Hand		41,200
General Reserve		22,000	Debtors	6,400	
Capital A/cs :			Less : R.D.D.	400	6,000
X		98,900	Stock		13,200
Y		39,560	Plant and Machinery		64,000
Z		59,340	Factory Building		1,18,000
		2,42,400			2,42,400

Y retires from the business on 1st April, 2019 on the following terms :

(A) The assets are revalued as under :

(i) Stock at ₹ 12,000 (ii) Factory building is appreciated by 10 %. (iii) Reserve for bad and doubtful debts is to be increased up to ₹ 500. (iv) Plant and Machinery depreciated by 10 %.

(B) The goodwill of the partner is valued at ₹ 18,200 and the remaining partners decide that goodwill be written back in their new profit sharing ratio which will be 5 : 3.

(C) Y be paid ₹ 10,420 in cash on his retirement and the balance due to him is to be transferred to his Loan Account.

Prepare : (1) Profit and Loss Adjustment A/c. (2) Capital Accounts of Partners. (3) Balance Sheet of new firm.

[**Ans.** (1) Profit on Revaluation = ₹ 4,100; Division of Profit : X = ₹ 2,050, Y = ₹ 820 and Z = ₹ 1,230. (2) Balance in Capital A/cs : X = ₹ 1,00,575 and Z = ₹ 60,345. (3) Loan of Y = ₹ 52,560. (4) Cash balance = ₹ 30,780. (5) Balance Sheet total = ₹ 2,36,080.]

[**Hints :**

(1) Y's share in goodwill ₹ 18,200 is debited to X's Capital A/c = ₹ 11,375 and Z's Capital A/c = ₹ 6,825 i.e., in the ratio of 5 : 3.

(2) Cash balance at the end = ₹ 30,780]

Q. 9. Ravi, Kavi and Anil were partners sharing profits in the ratio of 4 : 3 : 3. Their Balance Sheet is given below :

Balance Sheet as on 31st March, 2020

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Sundry Creditors		44,000	Cash at Bank		28,000
Bills Payable		30,000	Debtors	16,000	
Reserve Fund		37,500	– R.D.D.	1,000	15,000
Capital A/cs :			Stock		25,000
Ravi		97,800	Motor Van		58,000
Kavi		73,350	Plant and Machinery		85,000
Anil		73,350	Factory Building		1,45,000
		3,56,000			3,56,000

Kavi retired on that date on the following terms :

(1) The Goodwill of the firm was to be valued at ₹ 86,000 and Kavi's share in it should be raised.

(2) Plant was to be depreciated by 10 % and Motor Van by $12\frac{1}{2}$ %.

(3) Stock was to be appreciated by 10 % and Factory Building by 20 %.

(4) One workman was injured and compensation of ₹ 23,000 payable to him is to be recorded in the firm's book.

(5) Provision for doubtful debts is no longer necessary.

(6) Both the continuing partners decided that goodwill should not appear in the books of accounts of the firm. The amount payable to Kavi shall be kept as his loan after making part payment of ₹ 10,000.

Prepare : Capital A/cs of the Partners, Profit and Loss Adjustment A/c, Balance Sheet of Ravi and Anil.

[**Ans.** (1) Loss on Revaluation = ₹ 6,250; Division of Loss : Ravi = ₹ 2,500, Kavi = ₹ 1,875 and Anil = ₹ 1,875. (2) Balance in Capital A/cs : Ravi = ₹ 1,02,928 and Anil = ₹ 77,197. (3) Loan of Kavi = ₹ 85,625. (4) Bank balance = ₹ 18,000. (5) Balance Sheet total = ₹ 3,62,750.]

[**Hints :**

(1) Kavi's share in goodwill = ₹ 12,900, Goodwill is then written off and debited to Ravi's A/c = ₹ 7,371 and Anil's A/c = ₹ 5,229 i.e. in the new ratio of 4 : 3 respectively.

(2) Depreciation on Motor Van = $12\frac{1}{2}$ % of ₹ 58,000 = $\frac{25}{2} \times \frac{58,000}{100}$ = ₹ 7,250.]

Q. 10. The following was the Balance Sheet of M, N and S who were partners sharing profits and losses equally :

Balance Sheet as on 31st March, 2020

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital A/cs :			Goodwill		73,000
M	1,32,000		Freehold Property		2,34,000
N	98,000		Investments		64,800
S	98,000	3,28,000	Stock		44,000
General Reserve		63,000	Debtors	40,000	
Creditors		42,000	Less : Provision for Bad Debts	800	39,200
Profit and Loss A/c		69,000	Bank		47,000
		5,02,000			5,02,000

S retired on 31st July, 2020 and for the purpose of her retirement, it was agreed that :

(1) Freehold property undervalued by 10 % and stock overvalued by 10% were to be adjusted and brought to their true values.

(2) Sundry debtors were to be considered fully good and Investments were to be revalued at ₹ 68,500.

(3) Goodwill was to be valued at thrice the average of the profits for the last 5 years. The profits were 2014–15 : ₹ 18,000, 2015–16 : ₹ 20,000; 2016–17 : ₹ 28,000; 2017–18 : ₹ 39,000 and 2018–19 : ₹ 42,000.

(4) S's share of profit up to the date of retirement was to be calculated on the basis of the average of the profits for the last 2 years.

(5) The balance due to the retiring partner was to be transferred to his Loan A/c.

Prepare a Revaluation Account, the Capital A/cs of the Partners and the Balance Sheet of the new firm.

[**Ans.** (1) Profit on Revaluation = ₹ 41,700; Division of Profit : M, N and S will get share in Profit = ₹ 13,900 each. (2) Capital balances : M = ₹ 1,89,900, N = ₹ 1,55,900. (3) Loan of S = ₹ 1,60,400. (4) Balance Sheet total = ₹ 5,48,200.]

[**Hints :**

(1) Value of Freehold Property = $\frac{100}{(100-10)} \times 2,34,000 = \frac{100}{90} \times 2,34,000$ = ₹ 2,60,000.

Value of Stock = $\frac{100}{(100+10)} \times \frac{44,000}{1} = \frac{100}{110} \times \frac{44,000}{1}$ = ₹ 40,000.

(2) S's share in current year profit = $\frac{4}{12} \times \frac{1}{2} \times \frac{1}{3}(42,000 + 39,000) = \frac{4}{72} \times \frac{81,000}{1}$ = ₹ 4,500.©

(3) Value of goodwill = ₹ 88,200. Increased value of goodwill of ₹ 15,200 credited to Revaluation A/c.]

5 RECONSTITUTION OF PARTNERSHIP
(Death of Partner)

SYLLABUS

5.1 Meaning
5.2 New Profit Sharing Ratio
5.3 Gain (Benefit) Ratio
5.4 Revaluation of Assets and Liabilities
5.5 Amount due to deceased partner's executor
5.6 Settlement of amount due
5.7 Accounting treatment

(A) BRIEF OVERVIEW

5.1 Meaning :

Death means the permanent end of all functions of life in an organism. Accordingly when a partner dies, he no more remains as partner of a firm. On death of a partner, he ceases to be partner of a firm on natural grounds. Thus, death of a partner is equivalent to compulsory retirement. The surviving partners may continue the business if partnership firm makes provisions in partnership deed. On the death of a partner, total amount due to deceased partner is transferred to his Legal Heir's Account or Legal Representative's Account or Executor's Account. Surviving partners make arrangement to make payment of deceased partner's dues with his legal representative who is entitled to interest at 6 % p.a. on the amount due from the date of death to the date of payment. On death of a partner, profit sharing ratio of the surviving partners get increased because profit sharing ratio of deceased partner gets divided and received by surviving partners.

5.2 New Profit Sharing Ratio :

New profit sharing ratio is a ratio in which the continuing partners share the future profit or loss of the firm after the death of a partner.

Example :

P, Q and R are partners in a firm sharing profits and losses of the firm as $\frac{1}{2}$, $\frac{1}{5}$ and $\frac{1}{10}$ respectively. R has expired. Surviving partners P and Q take up R's ratio in the proportion of 3 : 2 respectively. Find out new ratio of P and Q.

Solution : Old ratio of P, Q and R is $\frac{1}{2}$, $\frac{1}{5}$ and $\frac{1}{10}$ respectively.

Gain Ratio = R's ratio × Take up Proportion

P's Gain Ratio $= \frac{1}{10} \times \frac{3}{5} = \frac{3}{50}$

Q's Gain Ratio $= \frac{1}{10} \times \frac{2}{5} = \frac{2}{50}$

New Ratio = Old Ratio + Gain Ratio

P's New Ratio $= \frac{1}{2} + \frac{3}{50} = \frac{25+3}{50} = \frac{28}{50}$

Q's New Ratio $= \frac{1}{5} + \frac{2}{50} = \frac{10+2}{50} = \frac{15}{50}$

New Ratio of P and Q is $\frac{28}{50}$ and $\frac{15}{50}$ respectively i.e. 28 : 12 or 7 : 3.

5.3 Gain (Benefit) Ratio :

Profit sharing ratio which is acquired by the continuing or surviving partners on account of death of a partner is called Gain Ratio or Benefit Ratio. Gain ratio is calculated by using the following formula :

Gain ratio = New ratio – Old ratio. Usually gain ratio is used by the firm to write off goodwill raised only to the extent of deceased partner's share.

Example :

M, N and O are partners sharing profits as 3 : 2 : 1 respectively. M is expired. Find out Gain ratio of N and O.

Solution : Old ratio of M, N and O is 3 : 2 : 1 i.e. $\frac{3}{6}$, $\frac{2}{6}$ and $\frac{1}{6}$ respectively.

New ratio of N and O is 2 : 1 i.e. $\frac{2}{3}$ and $\frac{1}{3}$ respectively.

Gain ratio = New Ratio – Old Ratio.

N's Gain Ratio $= \frac{2}{3} - \frac{2}{6} = \frac{4-2}{6} = \frac{2}{6}$

O's Gain Ratio $= \frac{1}{3} - \frac{1}{6} = \frac{2-1}{6} = \frac{1}{6}$

$\therefore$ Gain Ratio of N and O is $\frac{2}{6} : \frac{1}{6}$ i.e. 2 : 1.

Thus, it is clear that if new ratio of continuing partners is not given, the gain ratio of continuing partners will remain same as the old ratio.

5.4 Revaluation of Assets and Liabilities :

At the time of death of a partner, all the assets and liabilities of the partnership firm are usually revalued and changes in their values are effected through a Profit and Loss Adjustment Account or Revaluation A/c. A reduction in the values of assets and an increase in the values of liabilities are debited to this Account while an increase in the values of assets and a reduction in the values of liabilities are credited to this Account. To transfer the deceased partner's share in profit or loss made on revaluation of assets and liabilities, the following journal entries are passed :

(a) Transfer of profit on revaluation :

Profit and Loss Adjustment / Revaluation A/c	Dr.	XXX	
To Deceased Partners' Capital A/c			XXX
(Being share of deceased partner in revaluation profit transferred to his Capital A/c)			

(b) Transfer of loss on revaluation :

Deceased Partners' Capital A/c	Dr.	XXX	
Profit and Loss Adjustment / Revaluation A/c			XXX
(Being share of deceased partner in revaluation loss transferred to his Capital A/c)			

Note : *Please note that journal entries for revaluation of assets and liabilities are the same as those for admission of a partner. For pro forma journal entries and ledger accounts for revaluation of assets and liabilities, refer to Chapter 3 on Admission of a Partner in this book.*

5.5 Amount due to deceased partner's executor :

In order to ascertain the total amount payable to the deceased partner's executor the following accounting items are considered :

(1) Capital balance : Capital balance of the deceased partner shown in the last Balance Sheet is required to be transferred to Capital Account of the deceased partner on credit side as 'By Balance b/d'.

(2) Interest on capital : If there is a provision in the partnership deed to pay interest on Partners' Capital, the interest on capital for the period beginning from the date of the last Balance Sheet to the date of death of a partner is calculated at specified rate and transferred to his Capital Account by recording the following journal entries :

Interest on Capital A/c Dr. XXX
To Deceased Partner's Capital A/c XXX
(Being interest due on capital balance transferred)

(3) Transfer of the deceased partner's share in general reserve, undistributed profits and unadjusted losses : If there are any items like Reserve Fund/General Reserve/undistributed profits or unadjusted losses shown in the last Balance Sheet, then the share of the deceased partner in those items should be calculated and transferred to his Capital Account by recording the following journal entries :

(a) Transfer of general reserve and undistributed profits :

General Reserve A/c Dr. XXX
Profit and Loss A/c Dr. XXX
To Deceased Partners' Capital A/c XXX
(Being share of deceased partner in general reserve and undistributed profit transferred)

(b) Transfer of unadjusted losses :

Deceased Partner's Capital A/c Dr. XXX
Profit and Loss A/c XXX
(Being share of deceased partner in unadjusted losses transferred)

(4) Share of goodwill : On the death of a partner, goodwill of the firm is to be valued as per the terms and conditions contained in the partnership agreement of the partnership firm and accordingly the share of the deceased partner can be ascertained. The share of goodwill of the deceased partner is transferred to his Capital Account by passing the following journal entry :

Goodwill A/c Dr. XXX
To Deceased Partner's Capital A/c XXX
(Being share of deceased partner in goodwill transferred to his Capital A/c)

(5) Salary due to a deceased partner : If there is a provision in the partnership deed to pay salary to partners, salary payable for the period from last Balance Sheet to the date of death of a partner is calculated and then transferred to the deceased Partner's Capital Account by recording the following journal entry :

Salaries A/c Dr. XXX
To Deceased Partners' Capital A/c XXX
(Being salary due to deceased partner transferred to his Capital A/c)

(6) Drawings of the partner : Deceased partner's drawings for a period from the date of last Balance Sheet till the date of his death are to be calculated and transferred to his Capital Account by recording the following journal entry :

Deceased Partners' Capital A/c Dr. XXX
To Drawings A/c XXX
(Being drawings of the deceased partner adjusted to his Capital A/c)

(7) Interest on Drawings : If there is a provision in the partnership deed to charge interest on partner's drawings, the interest on drawings for the period beginning from the date of last balance sheet to the date of death is calculated at specified rate and transferred to his Capital Account by recording the following journal entry :

Deceased Partners' Capital A/c Dr. XXX
To Interest on Drawings A/c XXX
(Being interest due on drawings adjusted to Capital A/c)

(8) Share of the deceased partner in the accrued profits of the firm i.e. profits accrued to firm from the date of last Balance Sheet to the date of death of a partner : The accrued profit of the firm from the date of the last Balance Sheet to the date of death of a partner may be calculated either on the basis of the last year's profit or the average of the profits for last two to five years. Deceased partner's share for a period from the date of the last Balance Sheet to the date of death, in the accrued profit of the firm can be calculated by using the following formula :

Deceased partner's share in accrued profit = *Deceased partner's profit sharing ratio × proportionate period for which he was in the firm during the accounting year of death × Average accrued profit of last year's profit.*

To transfer this share of profit to the Deceased Partner's Capital A/c the following journal entry is to be passed :

Profit and Loss Suspense A/c Dr. XXX
To Deceased Partner's Capital A/c XXX

(9) Share in revaluation of Assets and Liabilities :

For this, refer to Brief Overview point no. 5.4 of this Chapter.

5.6 Settlement of amount due :

After recording all the above entries, the total amount due to a deceased partner is calculated and then it is to be transferred to the Deceased Partner's Executor's A/c or Legal Heir's A/c. To effect this transfer, the following journal entry is recorded in the books of the firm :

Deceased Partner's Capital A/c Dr. XXX
To Deceased Partner's Executor's A/c/Legal Heir's A/c XXX

If any payment is made to Deceased Partner's Executor/Legal Heir, then the following journal entry is passed :

Deceased Partner's Executor's A/c/Legal Heir's A/c Dr. XXX
To Cash/Bank A/c XXX

The balance left in Deceased Partner's Executor's A/c/Legal Heir's A/c is then treated as Deceased Partner's Executor's / Legal Heir's Loan.

5.7 Accounting treatment :

Deceased Partner's Capital Account :

In order to ascertain the amount due to a deceased partner's executor or legal heirs or legal representative, his Capital Account is prepared. It is shown below :

Dr. **Deceased Partner's Capital Account** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Profit and Loss A/c	XXX	By Balance b/d	XXX
(Past loss)		By General Reserve A/c	XXX
To Profit and Loss Adjustment A/c	XXX	(Transfer)	
(Loss on revaluation)		By Profit and Loss A/c	XXX
To Drawings A/c	XXX	(Past profit)	
(Withdrawals)		By Profit and Loss Suspense A/c	XXX
To Interest on Drawings A/c	XXX	(Profit of current year)	
(Interest due)		By Goodwill A/c	XXX
To Deceased Partner's Executor's A/c	XXX	(Share in goodwill)	
(Balance due transferred)		By Profit and Loss Adjustment A/c	XXX
		(Share in profit on valuation)	
		By Salaries A/c	
		(Salaries due)	XXX
		By Interest on Capital A/c	
		(Interest due)	XXX
	XXX		XXX

Dr. **Deceased Partner's Executor's Account** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Cash/Bank A/c	XXX	By Deceased Partner's Capital b/d	XXX
(Cash payment)		(Transfer)	
To Deceased Partner's Executor's Loan A/c	XXX		
(Transfer)			
	XXX		XXX

SOLVED PROBLEM

Q. The following is the Balance Sheet of Shikha, Divit and Naman, who were partners sharing profits and losses in the ratio of 2 : 2 : 1.

Balance Sheet as on 31st March, 2020

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital A/cs :			Investments		70,000
Shikha	40,000		Stock		24,000
Divit	30,000		Debtors	40,800	
Naman	40,000	1,10,000	Less : R.D.D.	800	40,000
Creditors		24,000	Cash		6,000
Outstanding Salaries		6,000			
		1,40,000			1,40,000

Naman died on 1st July, 2020 and the following adjustments were made in the books of the firm :

(1) All debtors were considered as good and the Reserve for Doubtful Debts was no longer necessary.
(2) A contingent liability for compensation of ₹ 1,800 was to be provided.
(3) Investments worth ₹ 40,000 were taken over by the executor of Naman and the remaining investments were sold for ₹ 30,000.
(4) Stock was revalued at ₹ 30,000.
(5) The goodwill of the firm was valued at ₹ 20,000 and was to be shown in the books.
(6) The deceased partner's share in profit up to the date of his death was to be calculated on the basis of the preceding year's profit which was ₹ 16,000.

Prepare the Profit and Loss Adjustment Account, Capital Accounts of Partners and the Balance Sheet of the new firm after the death of Naman.

Solution : **In the books of Partnership Firm**

Dr. **Profit and Loss Adjustment Account** **Cr.**

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Provision for contingent liability		1,800	By R.D.D. A/c (R.D.D. cancelled)		800
To Partners' Capital A/cs : (Profit)			By Stock A/c (Appreciation)		6,000
Shikha	2,000				
Divit	2,000				
Naman	1,000	5,000			
		6,800			6,800

Dr. **Partners' Capital Accounts** **Cr.**

Particulars	Shikha (₹)	Divit (₹)	Naman (₹)	Particulars	Shikha (₹)	Divit (₹)	Naman (₹)
To Investments A/cs (Taken over)	–	–	40,000	By Balance b/d	40,000	30,000	800
				By Goodwill A/c (Raised)	8,000	8,000	6,000
To Naman's Executor's Loan A/c (Transfer)	–	–	5,800	By Profit and Loss Suspense A/c (Share in accrued profit)	–	–	800
To Balance c/d	50,000	40,000	–	By Profit and Loss Adjustment A/c (Profit)	2,000	2,000	1,000
	50,000	40,000	45,800		50,000	40,000	45,800

Balance Sheet as on 1st July, 2020

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital A/cs :			Goodwill		20,000
Shikha	50,000		Debtors		40,800
Divit	40,000	90,000	Stock		30,000
Naman's Executor's Loan A/c		5,800	Cash		36,000
Creditors		24,000	Profit and Loss Suspense A/c		800
Outstanding Salaries		6,000			
Provision for Contingent Liability for Compensation		1,800			
		1,27,600			1,27,600

Working Notes :

(1) Goodwill valued at ₹ 20,000 is debited to Goodwill A/c and credited to all Partners' Capital A/cs in their profit sharing ratio. Show balance in the Goodwill A/c then transfer to the Assets side of the Balance Sheet.

(2) The deceased partner's (Naman) share in profit up to the date of his death

= (Preceding year's profit) × (Proportionate profit) × Naman's share in profit

$= 16{,}000 \times \frac{3}{12} \times \frac{1}{5} =$ ₹ 800.

(3) A provision for contingent liability for compensation ₹ 1,800 is debited to Profit and Loss Adjustment A/c and then shown at the Liabilities side of the Balance Sheet.

(4) The following ledger accounts are prepared to ascertain their closing balances :

Dr. **Investments A/c** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	70,000	By Naman's Executor's A/c	40,000
		By Cash A/c	30,000
	70,000		70,000

Dr. **Cash A/c** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	6,000	By Balance c/d	36,000
To Investments A/c	30,000		
	36,000		36,000

EXERCISE

(A) Select the most appropriate alternatives from the following and rewrite the sentences :

*(1) (1) Benefit Ratio is the ratio in which ....

- *(a) the old partner gain on admission of a new partner*
- *(b) the Goodwill of a new partner on admission is credited to old partners*
- *(c) the continuing partners' benefits on retirement or death of a partner*
- *(d) all partners are benefitted.*

(2) The ratio by which existing partners are benefitted ....

(a) gain ratio *(b) sacrifice ratio* *(c) profit ratio* *(d) capital ratio*

(3) Profit and Loss Suspense Account is shown in the new Balance Sheet on .... side.

(a) debit *(b) credit* *(c) asset* *(d) liabilities*

(4) Death is a compulsory ....

(a) Dissolution *(b) Admission* *(c) Retirement* *(d) Winding up*

(5) The balance on the Capital Account of a partners, on his death is transferred to .... Account.

(a) Relatives *(b) Legal Heir's Loan / Executors Loan*
(c) Partners' Capital *(d) Partners' Loan*

Ans. (1) the continuing partners' benefits on retirement or death of a partner (2) gain ratio (3) asset (4) Retirement (5) Legal Heir's Loan / Executors Loan.

(2) (1) Share of loss of a deceased partner till the date of death is ....

(a) debited to Profit and Loss Adjustment A/c *(b) credited to Profit and Loss Adjustment A/c*
(c) debited to Profit and Loss Suspense A/c *(d) credited to Profit and Loss Suspense A/c*

(2) Gain ratio is calculated on ....

(a) admission of a partner *(b) retirement of a partner*
(c) death of a partner *(d) retirement or death of a partner*

(3) Share of profit of a deceased partner till the date of death is ....

(a) debited to Profit and Loss Adjustment A/c *(b) credited to Profit and Loss Adjustment A/c*
(c) debited to Profit and Loss Suspense A/c *(d) credited to Profit and Loss Suspense A/c*

(4) An amount received from the Insurance Company against the joint life policy is ....

- *(a) debited to deceased partner*
- *(b) credited to deceased partner*
- *(c) credited to Continuing Partners Capital a/c*
- *(d) credited to All Partners' Capital A/cs in their profit sharing ratio*

(5) M, N and S are partners in a firm having joint life policy of ₹ 10,00,000 on which premium has been paid by the firm. M dies and his legal representatives want the whole amount of the policy whereas N and S want to distribute the amount among all the partners.

(a) M's representatives are correct. *(b) N and S are correct.*
(c) All are wrong. *(d) Insurance company will decide.*

(6) X, Y and Z share profit as 1/2, 3/10 and 1/5 and Z has expired, the new profit ratio of X and Y will be .... respectively.

(a) 5 : 8 *(b) 5 : 3* *(c) 2 : 1* *(d) 5 : 2*

(7) The interest on drawings of a deceased partner is credited to ....
(a) *Profit and Loss Adjustment A/c* (b) *Revaluation A/c*
(c) *Capital A/c* (d) *Profit and Loss Suspense A/c*

(8) In the case of death of a partner, a .... is opened for revaluation of the assets and liabilities.
(a) *Profit and Loss Adjustment A/c* (b) *Profit and Loss A/c*
(c) *Profit and Loss Suspense A/c* (d) *Executor's Loan A/c*

(9) A balance on the Deceased Partner's Executor's Loan Account is shown in the new Balance Sheet on .... side.
(a) *assets* (b) *credit* (c) *liabilities* (d) *none of these*

Ans. (1) credited to Profit and Loss Suspense A/c (2) retirement or death of a partner (3) debited to Profit and Loss Suspense A/c (4) credited to All Partners' Capital A/cs in their profit sharing ratio (5) N and S are correct. (6) 5 : 3 (7) Profit and Loss Suspense A/c (8) Profit and Loss Adjustment A/c (9) liabilities

(B) Write the word / phrase / term, which can substitute each of the following statement :

Statement	Ans. (word/phrase/term)
* (1) Excess of credit side over debit side of Profit and Loss Adjustment Account.	Profit
* (2) A person who represents the deceased partner on the death of the partner.	Legal Heir's or Executor
* (3) Accumulated past profit kept in the form of reserve.	Reserve fund or General reserve
* (4) The partner who died.	Deceased partner
* (5) The proportion in which the continuing partners benefit due to death of a partner.	Gain / Benefit ratio
(6) The account which shows revaluation of assets and liabilities.	Revaluation A/c or Profit and Loss Adjustment A/c
(7) Excess of proportionate capital over actual capital.	Deficit
(8) The account to which deceased partners' capital balance is transferred.	Deceased Partner's Executor's Loan Account
(9) A person entitled to receive the amount due to a deceased partner.	Legal Heir/Executor/Legal Representative of deceased partner
(10) The account where the deceased partner's share in accrued profit from the date of last Balance Sheet to the date of his death is adjusted.	Profit and Loss Suspense A/c

(C) * (1) State whether the following statements are True or False with reasons :

(1) A deceased partner is not entitled to Goodwill of the firm.

Ans. This statement is **False**.

A deceased partner's contribution was there in the development of business and goodwill is the value of business in terms of money. Hence, a deceased partner is entitled to receive goodwill of the firm.

(2) A deceased partner is entitled to his share of General Reserve.

Ans. This statement is **True**.

General reserve is created out of past undistributed profit. Past profit is earned due to efforts and hard work of all the partners including partner who is now dead. Hence a deceased partner has right on it and therefore a deceased partner is entitle to receive his share of General reserve.

(3) **If goodwill is written off, a Deceased Partner's Capital Account is debited.**

Ans. This statement is **False**.

When the benefits of goodwill is given to deceased partner, his capital account is credited and when such goodwill is written off, capital accounts of remaining partners are debited.

(4) **After the death of a partner, entire amount due to deceased partner is paid to legal representative of the deceased partner.**

Ans. This statement is **True**.

After the death of a partner, entire amount due to deceased partner is paid to legal representative of the deceased partner as he is the only person who has legal right on that amount.

(5) **For recording the profit or loss up to the death, Profit and Loss Appropriation Account is operated.**

Ans. This statement is **False**.

For recording the profit or loss up to the death, Profit and Loss suspense Account is created and operated. This is because final accounts cannot be prepared on the date of death of a partner. Till that period a separate account called Profit and Loss Suspense A/c is prepared.

(2) (1) **Death of a partner is like a compulsory retirement.**

Ans. This statement is **True**.

After the death of a partner, business is not able to get any kind of services from deceased partner and he ceases to be a partner of a firm on natural ground. Hence, we can say that death of a partner is like a compulsory retirement.

(2) **Total amount due to deceased partner is paid in cash to executor immediately after his death.**

Ans. This statement is **False**.

Depending on the availability of sufficient cash or bank balance the total amount due to deceased partner is paid. However, it is not at all necessary to make immediate payment to legal heir or representative of deceased partner.

(3) **On the death of a partner, his share in the goodwill is divided equally among continuing partners.**

Ans. This statement is **False**.

On the death of a partner, his share in the goodwill is divided in the old profit ratio of continuing partners.

(4) **Deceased partner's share in profit up to the date of his death will be debited to his Capital A/c.**

Ans. This statement is **False**.

Deceased partner's share in profit up to the date of his death will be credited to his Capital A/c as he is entitled to receive it.

(5) **For decrease in the value of assets, Revalution Account is debited.**

Ans. This statement is **True**.

Decrease in the value of assets means a loss to the business and in that case Asset Account will be credited and Revaluation Account will be debited.

(6) **An amount due to the deceased partner appears in the Balance Sheet.**

Ans. This statement is **False**.

An amount due to the deceased partner is transferred to his Executor's Account and the balance if remains in Executor's Loan Account then it appears in the Balance Sheet.

(D) Complete the Sentences :

* (1) Deceased Partners' Executors Account is shown on the .... side of the Balance Sheet.

* (2) On death of a partner, a ratio in which the continuing partners get more share of profits in future is called as .... Ratio.

* (3) Deceased partners share of profit up to the death is shown on .... side of Balance Sheet.

* (4) Benefit Ratio = New Ratio – ....

* (5) When Goodwill is raised at its full value and it is written off .... Account is to be credited.

(6) An amount due to a deceased partner is transferred to .... A/c.

(7) Death of a partner is like a .... retirement.

(8) Usually assets and liabilities of the firm are revalued on the .... of a partner.

(9) For increase in the value of assets, Revaluation Account is ....

(10) A partner who died is known as ....

(11) A person who represent a deceased partner is known as ....

Ans. (1) Liabilities (2) Gain (3) Assets (4) Old Ratio (5) Goodwill (6) Executor's Loan (7) compulsory (8) death (9) credited (10) deceased partner (11) Legal Heir or Executor.

(E) * (1) Answer in one sentence only :

(1) What is Gain Ratio ?

Ans. Profit sharing ratio which is acquired by the surviving or continuing partners on account of death of any partner is called gain ratio or benefit ratio.

(2) In which ratio general reserve is distributed on death of a partner ?

Ans. General reserve is distributed on death of a partner in their old profit sharing ratio.

(3) To whom you distribute general reserve on death of a partner ?

Ans. On death of a partner general reserve is distributed among all partners in their old profit and loss ratio.

(4) How death of a partner is a compulsory retirement ?

Ans. After the death of a partner, business is not able to get any kind of services from deceased partner and so we can say that death of a partner is like a compulsory retirement.

(5) To which account profit is to be transferred up to the date of his death ?

Ans. Profit of the deceased partner, up to the date of his death, is transferred to his Legal Heir's / Executor's Account.

(2) **(1) How is gain ratio calculated?**

Ans. Gain ratio is calculated by using the formula : Gain Ratio = New Ratio – Old Ratio.

(2) When is gain ratio required to be calculated?

Ans. Gain ratio is usually calculated at the time of retirement or death of a partner.

(3) How would you treat general reserve on the death of a partner?

Ans. On the death of a partner, balance in general reserve is transferred to all Partners' Capital Accounts or Current Accounts in their old profit sharing ratio.

(4) How is the amount due to a deceased partner calculated?

Ans. The amount due to a deceased partner is calculated by adding his share in general reserve, past accumulated profit, goodwill, profit on revaluation of assets and liabilities, interest on capital, salary payable, etc. in opening balance of capital and by deducting the share in past accumulated loss, revaluation loss, drawings and interest on drawings from his capital balance.

(5) How is amount due to deceased partner settled?

Ans. The amount finally due to the deceased partner is settled by transferring the same amount to his Legal Heir or Representative's Loan Account and the same is paid to the legal heir or representative or executor after completing all legal formalities.

(6) How is the share of deceased partner in accrued profit calculated?

Ans. The share of deceased partner in accrued profit is calculated on the assumed basis of average profit of past few years and credited to Deceased Partner's Capital Account.

(7) How is a debit balance of Profit and Loss Account dealt with on the death of a partner?

Ans. On the death of a partner, a debit balance of Profit and Loss Account is adjusted and transferred to all Partners' Capital/Current Accounts in their old profit sharing ratio.

SOLUTIONS OF TEXTUAL PROBLEMS

*** Q. 1. Rajesh, Rakesh and Mahesh were equal Partner on 31st March, 2019. Their Balance Sheet was as follows 31st March, 2019.**

Balance Sheet as on 31st March, 2019

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital Accounts :		Land and Building	4,00,000
Rajesh	5,00,000	Furniture	3,00,000
Rakesh	2,00,000	Debtors	3,00,000
Mahesh	2,00,000	Stock	1,00,000
Sundry Creditors	90,000	Cash	1,00,000
Bills Payable	60,000		
Bank Loan	1,50,000		
	12,00,000		12,00,000

Mr Rajesh died on 30th June, 2019 and the following adjustment were agreed as :

(1) Furniture was to be adjusted to its market price of ₹ 3,40,000.

(2) Land and Building was to be depreciated by 10 %.

(3) Provide R.D.D. @ 5 % on debtors.

(4) The profit up to the date of death of Mr Rajesh is to be calculated on the basis of last years profit which was ₹ 1,80,000.

Prepare (1) Profit and Loss Adjustment A/c (2) Partners' Capital Account (3) Balance Sheet of the continuing firm.

Solution : **In the books of the Partnership Firm**

Dr. **Profit and Loss Adjustment Account** **Cr.**

Particulars	Amount (₹)	Particulars		Amount (₹)
To Land and Building A/c	40,000	By Furniture A/c		40,000
To R.D.D. A/c	15,000	By Partners' Capital A/c (Loss)		
		Rajesh	5,000	
		Rakesh	5,000	
		Mahesh	5,000	15,000
	55,000			55,000

Dr. **Partners' Capital Account** **Cr.**

Particulars	Rajesh (₹)	Rakesh (₹)	Mahesh (₹)	Particulars	Rajesh (₹)	Rakesh (₹)	Mahesh (₹)
To Profit and Loss Adjustment A/c – Loss	5,000	5,000	5,000	By Balance b/d	5,00,000	2,0,000	2,00,000
To Rajesh's Executor's A/c	5,10,000	–	–	By Profit and Loss Suspense A/c	15,000	–	–
To Balance c/d	–	1,95,000	1,95,000				
	5,15,000	2,00,000	2,00,000		5,15,000	2,00,000	2,00,000

Balance Sheet as on 1st July, 2019

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital Accounts :			Land and Building	4,00,000	
Rakesh	1,95,000		Less : Depreciation	40,000	3,60,000
Mahesh	1,95,000	3,90,000	Furniture	3,00,000	
Rajesh's Executor's Loan A/c		5,10,000	Add : Appreciation	40,000	3,40,000
Sundry Creditors		90,000	Debtors	3,00,000	
Bills Payable		60,000	Less : R.D.D. (5%)	15,000	2,85,000
Bank Loan		1,50,000	Stock		1,00,000
			Cash		1,00,000
			Profit and Loss Suspense A/c		15,000
		12,00,000			12,00,000

Working Note :

Profit of the firm of last year was ₹ 1,80,000.

Proportionate profit up to the date of death for Rajesh is as follows

$= 1,80,000 \times \frac{3}{12} \times \frac{1}{3} \qquad = ₹\ 15,000$

(Period) (P & L ratio) Profit and Loss Suspense A/c

*** Q. 2. Rahul, Rohit and Ramesh are in a business sharing profits and losses in the ratio of 3 : 2 : 1 respectively. Their Balance Sheet as on 31st March, 2017 was as follows :**

Balance Sheet as on 31st March, 2017

Liabilities	Amount (₹)	Assets		Amount (₹)
Capital Accounts :		Debtors	1,00,000	
Rahul	2,20,000	Less : R.D.D.	10,000	90,000
Rohit	2,10,000	Plant and Machinery		85,000
Ramesh	2,40,000	Investment		3,50,000
Creditors	80,000	Motor Lorry		1,00,000
Bills Payable	7,000	Building		80,000
General Reserve	96,000	Bank		1,48,000
	8,53,000			8,53,000

On 1st October, 2017 Ramesh died and the Partnership deed provided that

(1) R.D.D. was maintained at 5 % on Debtors.

(2) Plant and Machinery and Investment were valued at ₹ 80,000 and ₹ 4,10,000 respectively.

(3) Of the creditors an item of ₹ 6,000 was no longer a liability and hence was properly adjusted.

(4) Profit for 2017–18 was estimated at ₹ 1,20,000 and Ramesh share in it up to the date of his death was given to him.

(5) Goodwill of the firm was valued at two times the average profit of the last five years, which were

2012–13	₹ 1,80,000	2013–14	₹ 2,00,000
2014–15	₹ 2,50,000	2015–16	₹ 1,50,000
2016–17	₹ 1,20,000		

Ramesh share in it was to be given to him.

(6) Salary ₹ 5,000 p.m. was payable to him.

(7) Interest on capital at 5 % i.e. was payable and on Drawings ₹ 2,000 were charged.

(8) Drawings made by Ramesh up to September 2017 were ₹ 5,000 p.m.

Prepare Ramesh's Capital A/c showing the amount payable to his executors.

Give working of Profit and Goodwill.

Solution : **In the books of the Partnership Firm**

Dr. **Ramesh's Capital Account** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Drawings A/c	30,000	By Balance b / d	2,40,000
To Interest on Drawings A/c	2,000	By Goodwill A/c	60,000
To Executor's Loan A/c	3,41,000	By Salary A/c	30,000
		By Interest on Capital A/c	6,000
		By Profit and Loss Adjustment A/c – Profit	11,000
		By Profit and Loss Suspense A/c	10,000
		By General Reserve A/c	16,000
	3,73,000		3,73,000

Working Notes :

(1) Calculation of share of Goodwill :

(a) Average profit $= \frac{\text{Total profit}}{\text{No. of years}}$

$= \frac{1,80,000 + 2,00,000 + 2,50,000 + 1,50,000 + 1,20,000}{5}$

$= \frac{9,00,000}{5}$

= ₹ 1,80,000

(b) Goodwill = Average profit × No. of years

= 1,80,000 × 2

= ₹ 3,60,000

(c) Share of Goodwill to Ramesh = Goodwill of the firm × Ramesh's share

$$= 3{,}60{,}000 \times \frac{1}{6}$$

$$= ₹\ 60{,}000$$

(2) Calculation of share of profit due to Ramesh :

Share of profit = Last year profit × Share of profit × Period

$$= 1{,}20{,}000 \times \frac{1}{6} \times \frac{6}{12}$$

= ₹ 10,000 (Profit and Loss Suspense A/c)

(3) Interest on Capital is calculated for six months. ∴ Interest = $2{,}40{,}000 \times \frac{6}{12} \times \frac{5}{100}$ = ₹ 6,000

(4)

Dr. **Profit and Loss Adjustment Account** **Cr.**

Particulars		Amount (₹)	Particulars	Amount (₹)
To Plant and Machinery A/c		5,000	By R.D.D. A/c	5,000
To Partners' Capital A/cs :			By Investments A/c	60,000
Rahul	33,000		By Creditors A/c	6,000
Rohit	22,000			
Ramesh	11,000	66,000		
		71,000		71,000

*** Q. 3. Ram, Madhav and Keshav are partners sharing profit and losses in the ratio 5 : 3 : 2 respectively. Their Balance Sheet as on 31st March, 2018 was as follows :**

Balance Sheet as on 31st March, 2018

Liabilities	Amount (₹)	Assets	Amount (₹)
General Reserve	25,000	Goodwill	50,000
Creditors	1,00,000	Loose Tools	50,000
Unpaid Rent	25,000	Debtors	1,50,000
Capital Accounts :		Live Stock	1,00,000
Ram	1,00,000	Cash	25,000
Madhav	75,000		
Keshav	50,000		
	3,75,000		3,75,000

Keshav died on 31st July, 2018 and the following adjustments were agreed by as per partnership deed :

(1) Creditors have increased by ₹ 10,000.

(2) Goodwill is to be calculated at 2 years purchase of average profits of 5 year.

(3) The profits of the preceding 5 years was

2013–14	₹ 90,000	2014–15	₹ 1,00,000
2015–16	₹ 60,000	2016–17	₹ 50,000
2017–18	₹ 50,000 (Loss)		

Keshav's share in it was to be given to him.

(4) Loose Tools and live stock were valued at ₹ 80,000 and ₹ 1,20,000 respectively.

(5) R.D.D. was maintained at ₹ 10,000.

(6) Commission ₹ 2,000 p.m. was payable to Keshav. Profit for 2018–19 was estimated at ₹ 45,000 and Keshav's share in it up to the date of his death was given to him.

Prepare Revaluation A/c, Keshav's Capital A/c showing the amount payable to his executors.

Solution : **In the books of the Partnership Firm**

Dr. **Revaluation Account** **Cr.**

Particulars		Amount (₹)	Particulars	Amount (₹)
To R.D.D. A/c		10,000	By Loose Tools A/c	30,000
To Creditors A/c		10,000	By Live Stock A/c	20,000
To Partners' capital A/c – Profit				
Ram	15,000			
Madhav	9,000			
Keshav	6,000	30,000		
		50,000		50,000

Dr. **Keshav's Capital Account** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance c/d	92,000	By Balance b/d	50,000
		By General Reserve A/c	5,000
		By Commission A/c (₹ 2,000 × 4 months)	8,000
		By Goodwill A/c	20,000
		By Revaluation A/c – Profit	6,000
		By Profit and Loss Suspense A/c	3,000
	92,000		92,000

Working Notes :

(1) Calculation of share of Goodwill :

(a) Average profit $= \frac{\text{Total profit}}{\text{No. of years}}$

$= \frac{90,000 + 1,00,000 + 60,000 + 50,000 - 50,000}{5}$

$= \frac{2,50,000}{5}$

= ₹ 50,000

(b) Goodwill = Average profit × No. of years

= 50,000 × 2

= ₹ 1,00,000

(c) Share of Goodwill to Keshav = Goodwill of the firm × Keshav's share

$= 1,00,000 \times \frac{2}{10}$

= ₹ 20,000

(2) Calculation of share of profit due to Keshav

Share of profit = Last year profit × Share of Keshav × Period

$$= 45{,}000 \times \frac{2}{10} \times \frac{4}{12}$$

= ₹ 3,000 (Profit and Loss Suspense Account)

*** Q. 4. Virendra, Devendra and Narendra were partners sharing profit and losses in the ratio of 3 : 2 : 1. Their Balance Sheet as on 31st March, 2019 was as follows :**

Balance Sheet as on 31st March, 2019

Liabilities	Amount (₹)	Assets	Amount (₹)
Bank Loan	25,000	Furniture	50,000
Creditors	20,000	Land & Building	50,000
Bills Payable	5,000	Motor Car	20,000
Reserve Fund	30,000	Sundry Debtors	50,000
Capital Accounts :		Bills Receivable	20,000
Virendra	90,000	Investments	50,000
Devendra	60,000	Cash at Bank	20,000
Narendra	30,000		
	2,60,000		2,60,000

Mr Virendra died on 31st August, 2019 and the partnership deed provided that the event of the death of Mr Virendra his executors be entitled to be paid out.

(1) The capital to his credit at the date of death.

(2) His proportion of Reserve at the date of last Balance Sheet.

(3) His proportion of Profits to date of death based on the average profits of the last four years.

(4) His share of Goodwill should be calculated at two years purchase of the profits of the last four years for the year ended 31st March were as follows :

2016	₹ 40,000	2017	₹ 60,000
2018	₹ 70,000	2019	₹ 30,000

(5) Mr Virendra has drawn ₹ 3,000 p.m. to date of death, There is no increase and decrerase in the value of assets and liabilities.

Prepare Mr. Virendra Executors A/c.

Solution : **In the books of the Partnership Firm**

Dr. **Virendra's Capital Account** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Drawings A/c (₹ 3,000 × 5 months)	15,000	By Balance b/d	90,000
		By Goodwill A/c	50,000
To Executor's Loan A/c	1,50,417	By Profit and Loss Suspense A/c	10,417
		By Reserve Fund A/c	15,000
	1,65,417		1,65,417

Working Notes :

(1) Calculation of share of profit :

$$\text{(a) Average profit} = \frac{\text{Total profit}}{\text{No. of years}}$$

$$= \frac{40{,}000 + 60{,}000 + 70{,}000 + 30{,}000}{4}$$

$$= \frac{2{,}00{,}000}{4}$$

= ₹ 50,000

(b) Goodwill = Average profit × No. of years

= 50,000 × 2

= ₹ 1,00,000

(c) Share of Goodwill to Virendra = Goodwill of the firm × Virendra's share

$$= 1{,}00{,}000 \times \frac{3}{6}$$

= ₹ 50,000

(2) Share of profit due to Virendra

Share of profit = Last year profit × Share of Virendra × Period

$$= 50{,}000 \times \frac{3}{6} \times \frac{5}{12}$$

= ₹ 10,417 (Profit and Loss Suspense A/c)

*** Q. 5. The Balance Sheet of Sohan, Rohan and Mohan who were sharing profits and Losses in the ratio of 3 : 2 : 1 is as follows :**

Balance Sheet as on 31st March, 2019

Liabilities	Amount (₹)	Assets	Amount (₹)
Bank Overdraft	18,000	Bank	48,000
Creditors	85,000	Debtors	30,000
Bills Payable	40,000	Land and Building	40,000
Bank Loan	1,50,000	Machinery	80,000
General Reserve	27,000	Investments	40,000
Capital Accounts :		Computers	40,000
Sohan	20,000	Stock	90,000
Rohan	20,000	Patents	12,000
Mohan	20,000		
	3,80,000		3,80,000

Mr Rohan died on 1st October, 2019 and the following adjustments were made :

(1) Goodwill of the firm is valued at ₹ 30,000.

(2) Land and Building and Machinery were found to be undervalued by 20 %.

(3) Investments are valued at ₹ 60,000.

(4) Stock to be undervalued by ₹ 5,000 and a provision of 10 % as debtors was required.

(5) Patents were value less.

(6) Mr Rohan was entitled to share in profits up to the date of death and it was decided that he may be allowed to retain his drawings as his share of profit. Rohan's drawings till date of death was ₹ 25,000.

Prepare Partners' Capital Accounts.

Solution : **In the books of the Partnership firm**

Dr. **Partners' Capital Accounts** **Cr.**

Particulars	Sohan (₹)	Rohan (₹)	Mohan (₹)	Particulars	Sohan (₹)	Rohan (₹)	Mohan (₹)
To Executor's Loan A/c	–	49,000	–	By Balance b/d	20,000	20,000	20,000
To Drawings A/c	–	25,000	–	By Revaluation A/c	15,000	10,000	5,000
To Balance c/d	63,500	–	34,500	By General Reserve A/c	13,500	9,000	4,500
				By Goodwill A/c	15,000	10,000	5,000
				By Profit and Loss Suspense A/c	–	25,000	–
	63,500	74,000	34,500		63,500	74,000	34,500

Working Notes :

(1)

Dr. **Revaluation Account** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Stock A/c	5,000	By Land and Building A/c	10,000
To R.D.D. A/c	3,000	By Machinery A/c	20,000
To Patents A/c	12,000	By Investments A/c	20,000
To Partner's Capital A/cs – Profit Sohan 15,000 Rohan 10,000 Mohan 5,000	30,000		
	50,000		50,000

(2) Firm's goodwill = ₹ 30,000. Distribute among partners in their profit and loss ratio 3 : 2 : 1.

(3) Revised value of Land & Building = $\frac{\text{Book value}}{(100-20)} \times 100 = \frac{40,000}{80} \times 100 =$ ₹ 50,000.

∴ Increase in the value of Land & Building = Revised value – Book value

= 50,000 – 40,000 = ₹ 10,000.

(4) Revised value of Machinery = $\frac{\text{Book value}}{(100-20)} \times 100 = \frac{80,000}{80} \times 100 =$ ₹ 1,00,000.

∴ Increase in the value of Machinery = 1,00,000 – 80,000 = ₹ 20,000.

(5) Patents were valueless means it is loss for business.

(6) Rohan's share in profit is ₹ 25,000 and his drawings is ₹ 25,000. Rohan is allowed to retain his drawings as his share of profit. Means write ₹ 25,000 as drawings on debit side and write ₹ 25,000 as Profit and Loss Suspense A/c on Credit side of Partners' Capital A/c.

PROBLEMS FOR PRACTICE

Q. 1. The following is the Balance Sheet of three partners, viz., Heeta, Geeta and Seeta sharing profits and losses in the ratio of 4 : 3 : 3 :

Balance Sheet as on 31st March, 2020

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital A/cs :			Sundry Assets		7,50,000
Heeta		2,70,000	Stock		50,000
Geeta		2,70,000	Debtors	60,000	
Seeta		2,40,000	Less : R.D.D.	2,000	58,000
General Reserve		40,000	Cash		82,000
Profit and Loss A/c		44,000			
Creditors		76,000			
		9,40,000			9,40,000

Seeta died on 31st July, 2020 and the following terms were agreed :

(1) Goodwill is to be valued at two years' purchase of the average profit for the last four years. Trading results were : 2015–16 : ₹ 72,000, 2016–17 : ₹ 96,000, 2017–18 : ₹ 1,36,000, 2018–19 : ₹ 1,44,000.

(2) Profit up to the date of death of Seeta be calculated on the basis of last year's profit.

(3) Sundry assets be appreciated by 10 % and Stock to be depreciated by ₹ 9,000.

(4) All the debts are good and, therefore, provision for doubtful debts is no longer necessary.

(5) An item of ₹ 4,000 included in creditors is no longer a liability and hence it should be written off.

You are required to prepare : (1) Revaluation A/c (2) Seeta's Capital A/c (3) Working notes for calculation of goodwill and profit till the date of death.

[**Ans.** (1) Profit on Revaluation = ₹ 72,000 (2) Amount due to Seeta's Executor = ₹ 3,68,400 (3) Seeta's share in Goodwill = ₹ 67,200 (4) Seeta's share in accrued profit = ₹ 14,400.]

Q. 2. A, B and C were partners sharing profits and losses as 7 : 5 : 4. Their Balance Sheet as on 31st March, 2020 was as follows :

Balance Sheet as on 31st March, 2020

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Bills Payable		42,350	Cash		65,850
Creditors		45,450	Bank		46,000
Loan		44,200	Bills Receivable		10,950
General Reserve		96,000	Debtors		16,250
Capital A/cs :			Stock		29,450
A	1,31,250		Furniture		42,100
B	93,750		Machinery		86,800
C	75,000	3,00,000	Building		2,30,600
		5,28,000			5,28,000

C died on 1st July, 2020 and the following adjustments were agreed as per the Deed :

(1) Goodwill is to be valued at three times of average profit of the last five years which were : 1st year : ₹ 52,000; 2nd year : ₹ 47,000; 3rd year : ₹ 60,000; 4th year : ₹ 56,000; 5th year : ₹ 60,000.

(2) C's share in the profits up to the date of his death is to be calculated on the basis of the average of the last two years' profit.

(3) Furniture, Machinery and Building are to be revalued at ₹ 41,800, ₹ 85,000 and ₹ 2,44,700 respectively.

(4) C is entitled to get a salary of ₹ 3,750 per month.

(5) Interest on capital is to be allowed @ 12 % p.a.

(6) C's drawing from 1st April, 2020 up to his death were at the rate of ₹ 3,624 per month.

You are required to prepare : (a) C's Capital A/c showing amount payable to his executor (b) Working of share of profit and share of goodwill of the deceased partner.

[**Ans.** (1) Profit on Revaluation = ₹ 12,000. (2) Amount payable to C's Executor = ₹ 1,49,503. (3) C's share in accrued profit = ₹ 3,625. (4) C's share in Goodwill = ₹ 41,250. (5) Interest on capital payable to C = ₹ 2,250.]

Q. 3. Sumit, Vinay and Panu were partners sharing profits and losses in the ratio of 3 : 2 : 1 respectively. Their Balance Sheet as on 31st March, 2020 was as follows :

Balance Sheet as on 31st March, 2020

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Creditors		20,000	Cash		22,500
Bills Payable		24,100	Bank		21,000
Loan		61,000	Bills Receivable		12,000
General Reserve		24,000	Debtors		13,600
Capital A/cs :			Stock		15,000
Sumit	1,45,500		Furniture		57,500
Vinay	97,000		Machinery		1,12,000
Panu	48,500	2,91,000	Buildings		1,66,500
		4,20,100			4,20,100

Panu died on 1st October, 2020 and the following adjustments were agreed as per the Deed :

(1) Goodwill is to be valued at three times the average profit of the last five years which were : 1st year : ₹ 16,000; 2nd year : Loss ₹ 6,000; 3rd year : ₹ 20,000; 4th year : ₹ 17,000 and 5th year : ₹ 22,000.

(2) Panu's share in the profits up to the date of his death is to be calculated on the basis of the average of the last two years' profits.

(3) Building is undervalued by 10 %; Machinery is overvalued by 12 % and Furniture is depreciated by 10 %.

(4) Panu is entitled to get a salary of ₹ 1,300 per month.

(5) Panu's drawings from 1st April, 2020 up to his death were ₹ 1,650 per month.

You are required to prepare : (1) Profit and Loss Adjustment A/c (2) Goodwill of the firm (3) Panu's shares in profit (4) Panu's salary (5) Panu's drawings.

[**Ans.** (1) Profit on Revaluation = ₹ 750. (2) Amount payable to Panu's Executor = ₹ 59,050. (3) Panu's share in accrued year's profit = ₹ 1,625. (4) Goodwill of the firm = ₹ 41,400. (5) Panu's share in goodwill = ₹ 6,900. (6) Panu's salary = ₹ 7,800. (7) Panu's drawings = ₹ 9,900.]

Q. 4. Ramesh, Deepak and Yogesh were partners sharing profits and losses in the ratio of 2 : 1 : 1. Their Balance Sheet as on 31st March, 2020 was as follows :

Balance Sheet as on 31st March, 2020

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital A/cs :			Land and Building		1,36,800
Ramesh	96,000		Stock		26,400
Deepak	48,000		Debtors		22,800
Yogesh	48,000	1,92,000	Cash at Bank		24,000
Reserve		28,800	Goodwill		36,000
Creditors		25,200			
		2,46,000			2,46,000

Yogesh died on 1st May, 2020 and the following adjustments were agreed as per deed :

(1) Land and Building was to be valued at ₹ 1,38,000 and Reserve for doubtful debts was to be provided ₹ 1,440 on Debtors.

(2) Interest on capital was to be allowed at 12 % p.a. and charged interest on drawings ₹ 660.

(3) The drawings of Yogesh up to the date of his death amounted to ₹ 12,600.

(4) The Goodwill of the firm is to be valued at 3 years' purchase of the average profit of last four years. The profits were : 1st year : ₹ 21,600; 2nd year : ₹ 16,800; 3rd year : ₹ 28,800 and 4th year : ₹ 28,800.

(5) The deceased partner's share of profit up to the date of his death should be based on the average profit of the last two years.

Prepare : (1) Profit and Loss Adjustment A/c (2) Yogesh's Capital A/c (3) Working of share of Goodwill of Yogesh (4) Working of share of profit up to the date of death of Yogesh.

[**Ans.** (1) Profit on Revaluation = ₹ 35,760. (2) Amount payable to Yogesh's Executor = ₹ 51,960. (3) Interest on Yogesh's Capital = ₹ 480. (4) Yogesh's share in accrued profit = ₹ 600.]

[**Hint :** Increase in the value of Goodwill is credited to Profit and Loss Adjustment A/c.]

Q. 5. Amul, Amol and Aman were partners in a business sharing profits and losses in the ratio of 6 : 1 : 1 respectively. Their Balance Sheet as on 31st March, 2019 was as follows :

Balance Sheet as on 31st March, 2019

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Sundry Creditors		45,000	Plant and Machinery		1,30,000
Reserve Fund		88,000	Sundry Debtors		25,000
Capital A/cs :			Stock		20,000
Amul	1,25,250		Cash at Bank		1,25,000
Amol	20,875				
Aman	20,875	1,67,000			
		3,00,000			3,00,000

Aman died on 30th September, 2019 :

(1) The Partnership Deed provided (a) that the deceased partner's share of profits up to the date of his death should be based on the profits of the previous year and (b) that his share of goodwill should be calculated at three years' purchase of the average of the profits for the last four years which were : 2014–15 : ₹ 80,000; 2015–16 : ₹ 60,000; 2016–17 : ₹ 42,000 and 2017–18 : ₹ 30,000.

(2) Plant and Machinery was overvalued by 30 % and a reserve for doubtful debts was to be created at ₹ 1,000. Sundry creditors are undervalued by 10 %.

(3) The drawings of Aman up to the date of his death amounted to ₹ 39,000.

(4) Interest on capital was to be allowed at 8 % p.a. and interest was to be charged on the drawings for 6 months at 6 % p.a.

Give the working of the share of profits and goodwill of the deceased partner and prepare Aman's Capital A/c showing the amount payable to his legal heir.

[**Ans.** (1) Loss on Revaluation = ₹ 36,000 (2) Amount payable to Aman's Executor = ₹ 9,790. (3) Interest on Aman's Capital = ₹ 835. (4) Interest on Aman's drawings = ₹ 1,170. (5) Aman's share in Goodwill = ₹ 19,875. (6) Aman's share in accrued profit = ₹ 1,875.]

Q. 6. Rekha, Reema and Reena were partners in a firm sharing profits and losses in the ratio of 3 : 2 : 1 respectively. On 31st March, 2018 their Balance Sheet was as follows :

Balance Sheet as on 31st March, 2018

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Creditors		15,000	Cash		1,500
Bills Payable		4,500	Bills Receivable		6,000
General Reserve		18,000	Debtors	90,000	
Capital A/cs :			Less : R.D.D.	6,000	84,000
Rekha	90,000		Investment		75,000
Reema	60,000		Land and Building		51,000
Reena	30,000	1,80,000			
		2,17,500			2,17,500

On 30th September, 2018 Reena died and it was agreed that :

(1) The assets be revalued as : Land and Building ₹ 60,000, Investment ₹ 70,800.

(2) All debtors were good.

(3) Goodwill of the firm is to be raised at ₹ 30,000.

(4) Reena's share of profit to the date of her death was to be calculated on the basis of average profit of last two years. Profits were : 2015–16 : ₹ 80,000; 2016–17 : ₹ 1,00,000.

Prepare : (1) Profit and Loss Adjustment A/c (2) Partners' Capital A/c (3) Balance Sheet of the New firm.

[**Ans.** (1) Revaluation Profit = ₹ 10,800; Reena's share in revaluation profit = ₹ 1,800. (2) Balance in Reena's Executor's Loan A/c = ₹ 47,300; Balance in Capital A/cs : Rekha = ₹ 1,19,400 and Reema ₹ 79,600. (3) Profit and Loss Suspense A/c = ₹ 7,500 (Dr. balance) (4) Balance Sheet Total = ₹ 2,65,800.]

Q. 7. Jay, Ajay and Vijay were partners in a firm sharing profits and losses in the ratio of 5 : 3 : 2 respectively. Their Balance Sheet of the firm on 31st March, 2019 is as follows :

Balance Sheet as on 31st March, 2019

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital A/cs :			Land and Building		4,00,000
Jay	4,00,000		Plant and Machinery		2,80,000
Ajay	1,20,000		Furniture		1,60,000
Vijay	80,000	6,00,000	Investments		80,000
General Reserve		3,00,000	Stock		50,000
Loan		1,00,000	Debtors		30,000
Trade Creditors		40,000	Cash at Bank		36,000
Bills Payable		36,000	Profit and Loss A/c		40,000
		10,76,000			10,76,000

On 1st August, 2019 Jay died and the following adjustments were agreed :

(1) Goodwill is to be valued at ₹ 2,00,000 but is it not to be appeared in the books of accounts. Land and Building and Stock are to be appreciated by 20 % and 10 % respectively. Plant and Machinery is depreciated by 15 %.

(2) Investments are to be taken over by Jay's executor at 10 % below cost. Provision of 10 % is to be made on Debtors to cover doubtful debts. Furniture is undervalued by 20 %.

(3) A provision of ₹ 5,000 be made in respect of outstanding legal charges.

(4) Profit up to date of death be calculated on the basis of average profits of last 4 years which is ₹ 60,000.

Pass the necessary journal entries to give effect to the above transactions and prepare the Balance Sheet of Ajay and Vijay.

[**Ans.** (1) Profit on Revaluation = ₹ 67,000. (2) Amount payable to Jay's Executor = ₹ 6,01,500. (3) Capital balances Ajay = ₹ 1,58,100. (4) Vijay = ₹ 1,05,400. (5) Balance Sheet total = ₹ 10,46,000.]

[**Hint :**

Jay's share in current year's accrued profit = ₹ 10,000.]

Q. 8. Parth, Karan and Raja were partners sharing profits and losses in the ratio of 2 : 2 : 1. Their Balance Sheet as on 31st March, 2020 was as follows :

Balance Sheet as on 31st March, 2020

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital A/cs :			Plant and Machinery		2,83,700
Parth	2,66,000		Investment		2,45,000
Karan	2,66,000		Stock		96,000
Raja	1,33,000	6,65,000	Sundry Debtors	91,200	
Sundry Creditors		93,000	Less : R.D.D.	1,200	90,000
Outstanding Expenses		29,000	Cash		72,300
		7,87,000			7,87,000

Karan died on 30th June, 2020. The following adjustments were made in the books of the firm :

(1) R.D.D. is no longer necessary.

(2) Investments worth ₹ 90,000 were taken over by Raja and remaining Investments were sold at a profit of ₹ 8,000.

(3) Stock was valued at ₹ 1,00,000 and Plant and Machinery was depreciated by 10 %.

(4) A contingent liability for compensation ₹ 7,000 is to be provided.

(5) Goodwill of the firm was valued at ₹ 90,000.

(6) The deceased partner's share in profit up to the date of death was to be calculated on the basis of last year' profit which was ₹ 84,000.

Prepare : Profit and Loss Adjustment A/c, Partners' Capital A/cs and Balance Sheet as on 30th June, 2020.

[**Ans.** (1) Loss on Revaluation = ₹ 22,170; Division of Loss : Parth = ₹ 8,868, Karan = ₹ 8,868 and Raja = ₹ 4,434. (2) Karan's share in accrued profit = ₹ 8,400. (3) Investment sold at ₹ 1,63,000. (4) Karan's Executor's Loan = ₹ 3,01,532. (5) Balance in Capital A/cs : Parth = ₹ 2,93,132 and Raja = ₹ 56,566. (6) Cash balance = ₹ 2,35,300. Balance Sheet Total = ₹ 7,80,230.]

Q. 9. The following is the Balance Sheet of Kalpana, Bela and Alpa who were partners in a business sharing profits and losses in the ratio of 2 : 1 : 1 respectively :

Balance Sheet as on 31st March, 2020

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Sundry Creditors		1,46,000	Land and Building		4,12,000
General Reserve		1,43,200	Sundry Debtors		70,000
Capital A/cs :			Stock		88,000
Kalpana	1,95,400		Bank		1,10,000
Bela	97,700				
Alpa	97,700	3,90,800			
		6,80,000			6,80,000

Kalpana died on 1st September, 2020 :

(1) The Partnership Deed provided that :

(a) The deceased partner's share of profit up to the date of her death should be based on the average of the profits for the last two years.

(b) Her share of goodwill should be calculated at three years' purchase of the average of the profits for the last four years, which were : 2015–16 : ₹ 82,000; 2016–17 : ₹ 64,000; 2017–18 : ₹ 1,10,000; 2018–19 : ₹ 1,30,000.

(2) Land and Buildings were to be revalued at ₹ 4,34,000 and R.D.D. was to be created at ₹ 4,000.

(3) Kalpana was to get a salary of ₹ 4,600 per month and her drawings up to the date of her death amounted to ₹ 24,000.

(4) Interest on capitals was to be allowed at 12 % p.a. and ₹ 1,970 was to be charged as interest on Kalpana's drawings.

Prepare : Profit and Loss Adjustment A/c, Capital A/cs of the Partners and the Balance Sheet of the new firm.

[**Ans.** (1) Profit on Revaluation = ₹ 18,000; Division of Profit : Kalpana = ₹ 9,000, Bela = ₹ 4,500 and Alpa = ₹ 4,500. (2) Kalpana's share in accrued profit = ₹ 25,000. (3) Kalpana's share in Goodwill = ₹ 1,44,750. (4) Interest on Kalpana's capital = ₹ 9,770. (5) Kalpana's Executor's Loan A/c = ₹ 4,52,550. (6) Capital balance : Bela = ₹ 1,38,000 and Alpa = ₹ 1,38,000. (7) Balance Sheet Total = ₹ 8,74,550.]

Q. 10. Asha, Shital and Nimisha were partners sharing profits and losses in the proportion to their capitals. The Balance Sheet of the firm on 31st March, 2019 was as follows :

Balance Sheet as on 31st March, 2019

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital A/cs :			Cash		25,800
Asha	99,000		Bills Receivable		27,000
Shital	66,000		Stock		13,200
Nimisha	33,000	1,98,000	Debtors	14,400	
Creditors		30,000	Less : R.D.D.	2,400	12,000
Bills Payable		25,200	Investment		38,400
General Reserve		28,800	Building		1,65,600
		2,82,000			2,82,000

Asha died on 30th June, 2019 and the following adjustments were made in the books :

(1) The value of stock was ₹ 12,000.

(2) Building was valued at ₹ 1,71,000.

(3) R.D.D. was not required.

(4) Investments were reduced by ₹ 1,200.

(5) Goodwill be valued at twice the average profit of the last 4 years. Asha's share in the goodwill was adjusted without affecting Goodwill A/c.

(6) Asha's share of profit up to her death was to be calculated on the basis of average profit of last two years.

(7) The profits were : 2014–15 : ₹ 18,000; 2015–16 : ₹ 21,600; 2016–17 : ₹ 26,400 and 2017–18 : ₹ 29,040

Prepare : Revaluation A/c and Balance Sheet after the death of Asha.

[**Ans.** (1) Profit on Revaluation = ₹ 5,400. (2) Division of profit : Asha = ₹ 2,700, Shital = ₹ 1,800 and Nimisha = ₹ 900. (3) Average profit of last 4 years = ₹ 23,760. (4) Goodwill = ₹ 47,520. (5) Goodwill credited to Asha = ₹ 23,760 and debited to Capital A/cs' of Shital = ₹ 15,840 and Nimisha = ₹ 7,920. (6) Average profit of last 2 years = ₹ 27,720, Accrued profit for 3 months = ₹ 6,930. Asha's share in accrued profit = ₹ 3,465. (7) Capital Balances : Shital = ₹ 61,560 and Nimisha = ₹ 30,780 and Asha's Executor's Loan A/c = ₹ 1,43,325. (8) Balance Sheet Total = ₹ 2,90,865.]

Q. 11. The following was the Balance Sheet of M/s Kala Jayant Company :

Balance Sheet as on 31st March, 2019

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Creditors		30,000	Cash in Hand		4,000
General Reserve		32,000	Stock		28,500
Capitals :			Debtors		25,500
Navin	30,000		Motor Truck		42,000
Naman	20,000		Buildings		32,000
Navya	20,000	70,000			
		1,32,000			1,32,000

Navya died on 1st July, 2019. You are required to show the Capital A/cs of all partners, Revaluation A/c and prepare Balance Sheet of the new firm after taking into consideration the following information :

(1) Navya's share of profit till the date of death was calculated on the basis of the average of the profits for the last three years.

(2) The goodwill of the firm was valued at the profit for the three preceding years and the Goodwill A/c was written off immediately in the gain ratio of Navin and Naman.

(3) Profits for the last three years were : 2015–16 : ₹ 32,000, 2016–17 : ₹ 32,500 and 2017–18 : ₹ 31,500.

(4) The partners Navin, Naman and Navya shared profits and losses in the ratio of 2 : 1 : 1.

(5) Buildings are undervalued by 20 % and Motor Truck is overvalued by 20 %. Stock is valued at 90 % of its book value. Outstanding legal charges to be provided are ₹ 1,250.

[**Ans.** (1) Loss on Revaluation = ₹ 3,100; Navya's share in Revaluation Loss = ₹ 775. (2) Navya's Executor's Loan A/c = ₹ 53,225. (3) Capital balance : Navin = ₹ 28,450 and Naman = ₹ 19,225. (4) Navya's share in accrued profit = ₹ 2,000. (5) Navya's share in Goodwill = ₹ 24,000. Balance Sheet Total = ₹ 1,32,150.]

[**Hints :**

Valuation of assets :

(a) Buildings $= \frac{100}{100-20} \times \frac{32,000}{1} = \frac{100}{80} \times \frac{32,000}{1} =$ ₹ 40,000.

(b) Motor Truck $= \frac{100}{100+20} \times \frac{42,000}{1} = \frac{100}{120} \times \frac{42,000}{1} =$ ₹ 35,000.

(c) Stock = 90 % of book value $= \frac{90}{100} \times \frac{28,500}{1} =$ ₹ 25,650.

(d) Goodwill is raised only to the extent of Navya's share in Goodwill and then Goodwill is written off in gain ratio of 2 : 1 between Capital A/cs of Navin and Naman respectively.]

Q. 12. The following is the Balance Sheet of Het, Heet and Hir who were partners sharing profits and losses in the ratio of 2 : 2 : 1 :

Balance Sheet as on 31st March, 2020

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital A/cs :			Plant and Machinery		1,11,600
Het	80,000		Investments		60,000
Heet	60,000		Stock		48,000
Hir	80,000	2,20,000	Debtors	41,600	
Creditors		44,000	Less : R.D.D.	1,600	40,000
Outstanding Salaries		12,000	Cash		36,400
Bank Overdraft		50,000	Goodwill		20,000
			Profit and Loss A/c		10,000
		3,26,000			3,26,000

Hir died on 1st July, 2020 and the following adjustments were made in the books of the firm :

(1) All debtors were to be considered as good.

(2) A liability for compensation of ₹ 1,200 was to be provided.

(3) A part of the investments was taken over by Hir's Executor at an agreed value of ₹ 40,000 and the remaining investments were sold for ₹ 22,000.

(4) Stock was valued at ₹ 60,000 and Plant and Machinery was depreciated by 10 %.

(5) The goodwill of the firm was valued at ₹ 40,000.

(6) The deceased partner's share in profit up to the date of her death was to be calculated on the basis of the average of the profits for the last four years.

(7) Trading results of the firm were 2015–16 : ₹ 32,000; 2016–17 : ₹ 48,000; 2017–18 : ₹ 30,000 and 2018–19 : ₹ 20,000.

Prepare the Profit and Loss Adjustment A/c, the Capital A/cs of the Partners, Loan from Hir's Executor A/c, Investments A/c and the Balance Sheet of the new firm.

[**Ans.** (1) Revaluation Profit = ₹ 23,240; Division : Het = ₹ 9,296, Heet = ₹ 9,296 and Hir = ₹ 4,648. (2) Hir's Executor's Loan A/c = ₹ 43,748. (3) Capital balances : Het = ₹ 85,296 and Heet = ₹ 65,296. (4) Balance Sheet Total = ₹ 3,01,540.]

[**Hint :**

Average profit of last 4 years means average of total profit of last 4 years i.e. 2018–19, 2017–18 2016–17 and 2015–16. Loss of ₹ 10,000 for 2018–19 has been given in the Balance Sheet.]

Q. 13. Anil, Boman and Chintu were partners sharing profits and losses in proportion to their capitals. The Balance Sheet of their firm on 31st March, 2020 was as follows :

Balance Sheet as on 31st March, 2020

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital A/cs :			Cash in Hand		66,500
Anil	1,50,000		Bills Receivable		27,500
Boman	1,00,000		Stock		41,000
Chintu	50,000	3,00,000	Debtors	42,000	
Creditors		45,000	Less : R.D.D.	2,000	40,000
Bills Payable		46,000	Investments		47,000
General Reserve		69,000	Land and Building		2,38,000
		4,60,000			4,60,000

Chintu died on 1st May, 2020 and the following adjustments were made in the books :

(1) The market value of the stock was taken as ₹ 45,000.

(2) Land and Building were appreciated by 10 %.

(3) All debtors were considered good.

(4) Investments were valued at ₹ 49,000.

(5) Goodwill was valued at two times the average of the profits for the last 4 years but no Goodwill A/c was to be shown in the books.

(6) Chintu's share of profits up to his death was to be calculated on the basis of the average of profits for last two years. The profits were : 2015–16 : ₹ 9,000; 2016–17 : ₹ 9,000; 2017–18 : ₹ 8,000; 2018–19 : ₹ 10,000.

Prepare the Profit and Loss Adjustment A/c and the Balance Sheet of firm after Chintu's death.

[**Ans.** (1) Profit on Revaluation = ₹ 31,800. (2) Amount payable to Chintu's Executor = ₹ 66,925. (3) Capital balances : Anil = ₹ 2,01,600, Boman = ₹ 1,32,400. (4) Balance Sheet Total = ₹ 4,91,925.]

Q. 14. Zalak, Yesha and Krisha were in partnership sharing profits and losses as 7 : 5 : 4. They had the following Balance Sheet as on 31st March, 2019 :

Balance Sheet as on 31st March, 2019

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Bills Payable		7,000	Building		30,000
Creditors		11,000	Machinery		10,000
Loan		10,300	Furniture		17,500
Reserve Fund		6,400	Stock		8,000
Capital A/cs :			Debtors		3,500
Zalak	22,000		Bills Receivable		4,000
Yesha	12,000		Cash at Bank		8,500
Krisha	16,000	50,000	Profit and Loss A/c		3,200
		84,700			84,700

Yesha died on 1st October, 2019 and the following adjustments were agreed upon as per the Deed :

(1) Goodwill of the firm valued at ₹ 40,000. The deceased partner's share in the profit up to the date of her death is to be calculated on the basis of average of preceding years' profit which is ₹ 48,000.

(2) Building and Machinery are to be valued at ₹ 40,000 and ₹ 8,500 respectively. Yesha is entitled to a salary of ₹ 2,750 p.a., Interest on capital is to be at 12 % p.a. Yesha's drawings up to the date of her death were ₹ 3,450 p.m. Goodwill is to be written off.

Prepare Profit and Loss Adjustment A/c, Partners' Capital A/cs and Balance Sheet of the firm after Yesha's death.

[**Ans.** (1) Profit on Revaluation = ₹ 8,500; Division of Profit : Zalak = ₹ 3,719; Yesha = ₹ 2,656 and Krisha = ₹ 2,125. (2) Amount payable to Yesha's Executor = ₹ 32,176. (3) Capital balances : Zalak = ₹ 19,164, Krisha = ₹ 14,380. (4) Balance Sheet Total = ₹ 94,020.]

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6 DISSOLUTION OF PARTNERSHIP FIRM

SYLLABUS

6.1 Introduction, Meaning and Definition of Dissolution of Partnership Firm
6.2 Circumstances / Reasons for Dissolution of Partnership Firm
6.3 Difference between Dissolution of Partnership and Dissolution of Firm
6.4 Effects of Dissolution of Partnership Firm
6.5 Accounting treatment / Settlement of accounts on Dissolution of Firm
6.6 Accounting Procedure : (A) Simple Dissolution
(B) Dissolution Under Insolvency Situation

(A) BRIEF OVERVIEW

6.1 Introduction, Meaning and Definition of Dissolution of Partnership Firm

Introduction : The term 'dissolve' means 'to come to an end or bring to an end.' Accordingly 'dissolution' means termination of a formal or legal relationship such as a business, marriage, etc. There is a difference between the dissolution of partnership and dissolution of partnership firm. Dissolution of partnership refers to severing or discontinuing the relation or connection by one or more partners with other partners without breaking or putting an end to business activities of the partnership firm. In this case, business activities of the firm are continued by remaining partners. Dissolution of partnership firm implies complete closure or breakdown of relations among all the partners and stoppage of all business or trading activities of the firm. Dissolution of partnership firm is a broader concept which also includes dissolution of partnership. Dissolution of partnership is a narrow concept. It does not include dissolution of partnership firm.

Meaning and Definition of Dissolution of Partnership Firm : Dissolution of a partnership firm is the end or closure or termination of the firm by break-up of the relation among the partners. In such a case, there is a stoppage of all trading activities. Dissolution has broader meaning in legal terms. A word 'DISSOLUTION' comes from the Latin word 'DISSOLUTION'. According to the provisions of the Partnership Act, 1932, (Section 39) "*the dissolution of partnership between all the partners of a firm is called the dissolution of the firm*".

In other words, dissolution of a partnership firm means complete closure of relation among all the partners. In such a case the firm ceases to exist.

6.2 Circumstances / Reasons for Dissolution of Partnership Firm : A partnership firm may be dissolved in various ways. They are as follows :

(A) Dissolution of partnership without court order : A partnership firm may be dissolved :

(1) When all partners or all partners except one decide to dissolve the firm, or the firm may be dissolved in accordance with an agreement signed previously or initially by all the partners.

(2) When the period for which the partnership was formed has come to an end.

(3) When the specific venture or object for which partnership was formed is completed.

(4) When all partners or all the partners except one are declared insolvent.

(5) When the business of the firm is declared as illegal or unlawful.

(6) When the partnership is at will and one of the partners has given a 14 days' notice in writing to all other partners to dissolve the firm.

(B) Dissolution by court order : The partnership firm will be dissolved by the court if any one of the partners files a suit i.e. legal application in the court of law. Under the following circumstances the court orders to dissolve the partnership firm :

(1) When a partner becomes unsound mind / insane or permanently incapable of performing his duties.

(2) When a partner is guilty of misconduct which affects the business of the firm.

(3) When a partner frequently breaks or violates the partnership agreement.

(4) Where a partner transfers his interest in the firm to an outsider without obtaining consent of other partners.

(5) When the business of the firm cannot be carried on except at a loss.

(6) Any other reason considered by court as just and equitable.

6.3 Difference between Dissolution of Partnership and Dissolution of Firm :

Base of Comparision	Dissolution of Partnership	Dissolution of Firm
Meaning	Complete dissolution may or may not imply.	Complete dissolution of partnership is implied.
Nature	Nature of dissolution of partnership is not compulsory.	Nature & dissolution of firm is voluntary or not compulsory.
Continuation of Business	Business activities may continue and reconstitution of partnership takes place.	Business activities completely stopped / discontinued.
Requirement	Revaluation of assets and liabilities takes place for the further procedure of reconstituion of partnership.	Realisation of assets and Liabilities takes place as no question of any reconstitution of partnership.
Final Closure of books	Final closure of books in not mandatory.	Final closure of books is mandatory.
Court order	Dissolution of partnership may not affected by court order.	A court order can affect dissolution of firm.

6.4 Effects of Dissolution of Partnership Firm :

The effects of dissolution of partnership firm are stated as follows :

(1) All trading or business activities are closed down.

(2) All assets of the firm are sold out.

(3) All liabilities of the firm are paid off or discharged according to the preference of payment.

(4) If any surplus left, it will be divided among the partners in their profit sharing ratio.

6.5 Accounting treatment / Settlement of accounts on Dissolution of Firm : In order to meet outside liabilities, the partnership firm raises funds by selling its assets. According to the provisions made under Section 48 of Partnership Act, 1932, the liabilities are paid as per the order given below :

(1) Payment of realisation expenses incurred while selling various assets.

(2) Repayment of loans and payment to creditors, outstanding expenses, Bank overdraft, Bills payable, Bank loans, Loans from other financial institutions, etc.

(3) Repayment of loans obtained from partners.

(4) Repayment of capital balances of partners to the extent possible.

(5) If any surplus left, it will be divided among the partners in their profit sharing ratio.

6.6 Accounting Procedure : The accounting procedure adopted for dissolution of partnership may be classified under the following two types :

(A) Simple Dissolution and (B) Dissolution Under Insolvency Situation.

(A) Simple Dissolution : When all partners remain solvent and firm is dissolved due to any reason it is called simple dissolution. On dissolution of the firm the following ledger accounts are opened to record various transactions, viz. (a) Realisation A/c (b) Partners' Capital A/cs (c) Partners' Current A/cs (under fixed capital method) (d) Cash or Bank A/c.

(a) Realisation Account : An account which is opened and operated at the time of dissolution by the partnership firm to record the entries of taking over and sale of assets and taking over and payment of liabilities of the firm and to find out profit or loss on realisation of assets and liabilities is called Realisation A/c. After recording all the entries relating realisation of assets and liabilities, this account is closed and balanced. The debit balance of Realisation A/c indicates loss incurred on realisation of assets and liabilities. The credit balance on Realisation A/c shows profit earned on realisation of assets and liabilities. The balance shown by Realisation A/c is transferred to all partners' Capital Accounts or Current Accounts.

(b) Partners' Capital Accounts : Capital balances of all partners shown in the last Balance Sheet are transferred to Capital Account of each partner on credit side as "By Balance b/d". Usually Partners' Capital Account show debit balances.

(c) Partners' Current Accounts : If fixed capital method is followed by the firm, along with Capital Account a Current Account for each partner is opened. Current Account may either show debit balance or credit balance. Entries relating to taken over of assets, payment of liabilities, transfer of Profit and Loss A/c balance, transfer realisation profit or loss, etc. are passed through Current Accounts. At the end, Current Accounts are closed and balances appearing in those accounts are transferred to respective Partners' Capital Accounts.

(d) Partner's Loan Account : When partner Loan Account has credit balance, it is not transferred to Credit side of Realisation Account but amount is paid off after paying all third parties due. If Partner Loan Account has debit balance, Partner's Loan should be debited to Partners' Capital / Current Account directly.

(e) Cash Account or Bank Account : On the dissolution of partnership firm, Cash A/c or Bank A/c is opened and balance of cash or bank shown in the last Balance Sheet is transferred to this account on debit side as "To Balance b/d." In case of Bank Overdraft, the balance is shown on the credit side of Bank A/c as "By Balance b/d", if Bank A/c is opened and operated. In that case cash balance is transferred to Bank A/c on debit side by passing the entry :

Bank A/c	Dr.	XXX	
To Cash A/c			XXX

All the receipts and payments are recorded in this Account. At the end this Account gets automatically closed.

Accounting entries to close : Under simple dissolution, the accounting procedure may be divided into three stages viz. (A) Transfer Stage, (B) Realisation or Disposal Stage and (C) Distribution Stage.

(A) Transfer Stage : In this stage all the assets except cash balance, bank balance and Profit and Loss A/c (debit) balance, are transferred at book value to debit side of Realisation A/c and all the liabilities except partner's loan, capitals, reserves, Profit and Loss A/c (Credit) balance are transferred at book value to credit side of Realisation A/c.

Pro forma journal entries :

(1) Transfer of assets : (except cash and bank balance and Profit and Loss A/c debit balance) :

Realisation A/c	Dr.	XXX	
To Sundry Assets A/c			XXX

(Being the assets transferred at book values)

(2) Transfer of third party liabilities :

Sundry Liabilities A/c	Dr.	XXX	
To Realisation A/c			XXX

(Being third party liabilities transferred at book values)

(3) Transfer of provisions against assets :

Reserve for Doubtful Debts A/c	Dr.	XXX	
Provision for Discount A/c	Dr.	XXX	
Provision for Depreciation A/c	Dr.	XXX	
Joint Life Policy Reserve A/c	Dr.	XXX	
Investment Fluctuation A/c	Dr.	XXX	
Contingency Reserve A/c	Dr.	XXX	
To Realisation A/c			XXX

(Being various provisions made to assets transferred to Realisation A/c)

(4) Transfer of accumulated profit and reserves :

Profit and Loss A/c	Dr.	XXX	
Reserve Fund/General Reserve A/c	Dr.	XXX	
To All Partners' Capital/Current A/cs			XXX

(Being accumulated profit/general reserve credited to all Partners' Capital/Current A/cs in their profit sharing ratio)

(5) Transfer of accumulated loss appearing on the assets side of Balance Sheet :

All Partners' Capital/Current A/cs	Dr.	XXX	
To Profit and Loss A/c			XXX
To Advertising Suspense A/c			XXX

(Being accumulated loss and deferred expenses not yet written off transferred to all Partners' Capital/Current A/cs in their profit sharing ratio)

Note : (i) Balance of Cash A/c and Bank A/c and Partner's Loan A/c should not be transferred to Realisation A/c. In such cases separate A/c for Cash or Bank and Partner's Loan should be opened and balance shown in the last balance sheet should be transferred to those accounts. (ii) In case of sundry debtors, gross amount of debtors before deducting R.D.D. should be transferred to debit side of Realisation A/c and R.D.D. amount should be transferred to credit side of Realisation A/c.

(B) Realisation or Disposal Stage : In this stage all assets including unrecorded assets are sold out i.e. realised into cash. Assets may be taken over by any partner after adjusting the agreed amount to its Capital/Current A/c. From the collected sales proceeds (cash) liabilities and dissolution expenses are paid. Partner's loan is also paid off in this stage.

Pro forma journal entries :

(1) Sale of recorded/unrecorded assets :

Cash/Bank A/c	Dr.	XXX		
To Realisation A/c			XXX	(Selling price)
(Being assets sold and cash received)				

(2) Taken over or recorded as well as unrecorded assets by a partner :

Partners' Capital/Current A/cs	Dr.	XXX		
To Realisation A/c			XXX	(At an agreed value)
(Being assets taken over by a partner)				

Note : Against the due amount to creditor, when asset is taken over by a creditor in part or in full payment due, due amount is to be decreased to that extent and balance amount will be paid to him. Here entry for the net payment is mandatory while entry for asset taken over by the creditor is not required.

(3) (a) Payment of recorded as well as unrecorded liabilities by the firm :

Realisation A/c	Dr.	XXX		
To Cash/Bank A/c			XXX	(Actual payment)
(Being liabilities of the firm paid)				

(b) Payment of recorded and unrecorded liabilities by a partner :

Realisation A/c	Dr.	XXX		
To Partner's Capital/Current A/c			XXX	(Actual amount paid)
(Being liabilities paid by a partner)				

Note : If nothing is mentioned about the payment of liability, then it is paid at book value.

(4) (a) Payment of realisation expenses :

Realisation A/c	Dr.	XXX		
To Cash/Bank A/c			XXX	(Actual expense)
(Being expenses of realisation paid)				

(b) Payment of realisation expenses by a partner :

Realisation A/c	Dr.	XXX		
To Partners' Capital/Current A/c			XXX	(Actual expense)
(Being expenses of realisation paid by a partner)				

(5) Payment of commission given to a partner for realising assets of the firm :

Realisation A/c	Dr.	XXX		
To Partners' Capital/Current A/c			XXX	(Agreed value)
(Being commission paid to partner)				

(6) Payment of contingent liability by a firm :

Realisation A/c	Dr.	XXX		
To Cash/Bank A/c			XXX	(Actual payment)

(Being contingent liabilities paid)

(7) Payment of partners' loan :

Partner's Loan A/c	Dr.	XXX		
To Cash/Bank A/c			XXX	(Actual payment)

(Being partner's loan paid by the firm)

(C) Distribution Stage : In this stage Realisation A/c is closed and balanced. The debit balance i.e. loss or credit balance i.e. profit is transferred to Partners' Capital or Current Accounts in their profit sharing ratio. Then Current Accounts of the partners are closed and balance appearing thereon is transferred to Capital Accounts of the partners. At the end Capital Accounts of all partners are closed by making payments to or receiving cash from the partners.

Pro forma journal entries :

(1) (a) Transfer of credit balance of Realisation A/c : (i.e. profit on realisation) to Partners' Capital/Current Accounts :

Realisation A/c	Dr.	XXX	
To Partners' Capital/Current A/cs			XXX

(Being profit on realisation transferred to Partners' Capital/Current A/cs)

(b) Transfer of debit balance of Realisation A/c : (i.e. loss on realisation) to Partners' Capital/Current Accounts :

Partners' Capital/Current A/cs	Dr.	XXX	
To Realisation A/c			XXX

(Being loss on realisation adjusted to all Partners' Capital/Current A/cs)

(2) Transfer of Current Account balance to Partner's Capital A/c :

(a) Transfer of credit balance of Current A/c :

Partner's Current A/c	Dr.	XXX	
To Partner's Capital A/c			XXX

(Being credit balance of Current A/c transferred to Capital A/c)

(b) Transfer of debit balance of Current A/c :

Partner's Capital A/c	Dr.	XXX	
Partner's Current A/c			XXX

(Being debit balance of Current A/c transferred to Capital A/c)

(3) (a) Payment of cash by a partner to the firm for his debit balance on Capital A/c (amount due from a partner) :

Cash/Bank A/c	Dr.	XXX	
To Partners' Capital A/c			XXX

(Being cash received in final settlement)

(b) Refund of capital to partners with credit balances (amount due to partners) :

Partners' Capital A/cs	Dr.	XXX	
To Cash/Bank A/c			XXX

(Being cash paid in final settlement)

Treatment of unrecorded (undisclosed) assets and liabilities : On the date of dissolution in the books of accounts, some assets and liabilities are not recorded, so entries of like this assets and liabilies are not transferred to Realisation account. But entries for like this unrecorded assets and liabilities are recorded in the books when they are realised or paid. Related entries are as follow :

(1) When unrecorded asset is sold out :

Cash / Bank A/c	Dr.	(At realised value)
To Realisation A/c		
(Being unrecorded asset realised)		

(2) When unrecorded asset is taken over by any partner :

Partners' Capital / Current A/c	Dr.	(At an agreed value)
To Realisation A/c		
(Being unrecorded asset taken over by a partner)		

(3) When unrecorded liabilities are paid off by any partner :

Realisation A/c	Dr.	(At an actual payment)
To Partners' Capital / Current A/c		
(Being unrecorded liabilities paid off by partner)		

(4) When unrecorded liabilities are paid by firm :

Realisation A/c	Dr.	(Actual payment made)
To cash / Bank A/c		
(Being unrecorded liabilities paid off by the firm)		

Treatment of Goodwill on Dissolution : When goodwill appears in the books, like other assets, it will be transferred to debit side of Realisation A/c, like all other assets. If goodwill is not appear in the books, wheatever sale amount is received, it will be debited to Cash / Bank A/c and credited to Realisation A/c.

(1) When Goodwill Account appears in the Balance Sheet :

(1) Transfer of Goodwill to Realisation Account :

Realisation A/c	Dr.
To Goodwill A/c	
(Being goodwill amount transferred)	

(2) When Goodwill is realised on dissolution :

Cash / Bank A/c	Dr.
To Realisation A/c	
(Being goodwill amount realised)	

(2) When Goodwill Account does not appear in the Balance Sheet :

Here, no entry for transfer of goodwill require.

(1) When Goodwill is realised on dissolution :

Cash / Bank A/c	Dr.
To Realisation A/c	
(Being goodwill amount realised)	

(2) When partner purchases Goodwill :

Partner's Capital / Current A/c Dr.
To Realisation A/c

(Being goodwill purchased by a partner)

Pro forma of Ledger Accounts :

(1) Realisation Account :

Dr. **Realisation Account** **Cr.**

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Sundry Assets (at book value)			By Sundry Liabilities (at book		
Land and Buildings	XXX		value)		
Plant and Machinery	XXX		Sundry Creditors	XXX	
Furniture and Fixtures	XXX		Bills Payable	XXX	
Goodwill	XXX		Outside Loans	XXX	
Closing Stock	XXX		Outstanding Expenses	XXX	
Debtors (gross)	XXX		Income Received in Advance	XXX	XXX
Bills Receivable	XXX		By R.D.D. A/c		XXX
Prepaid Expenses	XXX		(At book value)		XXX
Income Receivables	XXX	XXX	By Cash/Bank A/c		
To Provision of any Liabilities A/c		XXX	(Sale of assets)		
(Book value)			By Partners' Capital/Current A/cs		XXX
(Reserve for discount on			(At agreed value)		
Creditors)			(Assets taken over)		
To Cash/Bank A/c		XXX	By Cash / Bank A/c		XXX
(At agreed value)			(Actual value)		
(Payment of liabilities)			(Received amount from		
To Partners' Capital/Current A/cs		XXX	unrecorded assets)		
(At agreed value)			By Partners' Capital/Current A/cs		
(liabilities accepted)			(in case loss is incurred)		
To Cash/Bank A/c		XXX	A	XXX	
(At agreed value)			B	XXX	
(Payment of Realisation			C	XXX	XXX
exp.)					
To Cash/Bank A/c		XXX			
(At agreed value)					
(Payment of unrecorded					
Liabilties)					
To Partners' Capital/Current A/cs					
(Profit) A	XXX				
B	XXX				
C	XXX	XXX			
		XXX			XXX

(2) Partners' Capital Accounts : (A) If Fixed Capital Method is followed by the firm :

Dr. **Partners' Current Accounts** **Cr.**

Particulars	A (₹)	B (₹)	C (₹)	Particulars	A (₹)	B (₹)	C (₹)
To Balance b/d	–	–	XXX	By Balance b/d	XXX	XXX	–
To Profit and Loss A/c (Past loss)	XXX	XXX	XXX	By General Reserve (Transfer)	XXX	XXX	XXX
To Realisation A/c (Taking over of assets)	XXX	XXX	XXX	By Profit and Loss A/c (Past profit)	XXX	XXX	XXX
To Realisation A/c (Share in Realisation loss)	XXX	XXX	XXX	By Realisation A/c (Liabilities accepted)	XXX	XXX	XXX
To Capital A/cs (Balancing figure)	XXX	XXX	–	By Realisation A/c (Share in Realisation profit)	XXX	XXX	XXX
				By Capital A/c (Balancing figure)	–	–	XXX
	XXX	XXX	XXX		XXX	XXX	XXX

It is assumed that opening balance of Current A/cs of A and B showed credit balances and that of C showed a debit balance.

Dr. **Partners' Capital Accounts** **Cr.**

Particulars	A (₹)	B (₹)	C (₹)	Particulars	A (₹)	B (₹)	C (₹)
To Current A/c (Balance transferred)	–	–	XXX	By Balance b/d	XXX	XXX	–
To Cash/Bank A/c (Final payment made to partners)	XXX	XXX	–	By Current A/cs (Balance transferred)	XXX	XXX	–
				By Cash/Bank A/c (Deficit contributed)	–	–	XXX
	XXX	XXX	XXX		XXX	XXX	XXX

(B) If Fluctuating Capital Method is followed by the firm :

Dr. **Partners' Capital Accounts** **Cr.**

Particulars	A (₹)	B (₹)	C (₹)	Particulars	A (₹)	B (₹)	C (₹)
To Profit and Loss A/c	XXX	XXX	XXX	By Balance b/d	XXX	XXX	XXX
(Past loss adjusted)				By General Reserve	XXX	XXX	XXX
To Realisation A/c	XXX	XXX	XXX	(Transfer)			
(Taking over of assets)				By Profit and Loss A/c	XXX	XXX	XXX
To Realisation A/c	XXX	XXX	XXX	(Past Profit transferred)			
(Share in Realisation loss)				By Realisation A/c	XXX	XXX	XXX
To Cash/Bank A/c	XXX	XXX	–	(Liabilities accepted)			
(Final payments)				By Realisation A/c	XXX	XXX	XXX
				(Share in Realisation profit)			
				By Cash/Bank A/c	–	–	XXX
				(Amount received to meet deficiency)			
	XXX	XXX	XXX		XXX	XXX	XXX

(3) Cash/Bank A/c :

Dr. **Cash/Bank Account** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance c/d	XXX	By Realisation A/c	XXX
To Realisation A/c	XXX	(Payment of liabilities and expenses)	
(Sale of assets)		By Partners' Loan A/cs	XXX
To Partners' Capital A/c	XXX	(Payment of loan)	
(Amount received)		By Partners' Capital A/cs	XXX
		(Refund of capital)	
	XXX		XXX

(B) Dissolution Under Insolvency Situation : A person whose liabilities exceed his assets is called an insolvent person. A partner whose capital account shows debit balance and who is not in a position to repay the amount of debit balance on his capital account to the firm is called an insolvent partner. In other words, a partner who is unable to meet his capital deficiency even from his private property is called an **insolvent partner**. A partner who is in a position to meet his capital deficiency is called a **solvent partner**. The debit balance of capital account of an insolvent partner which he cannot pay is called his **capital deficiency**. The capital deficiency of insolvent partner represents a loss to the firm. The capital deficiency of insolvent partner is to be borne by solvent partners in their profit sharing ratio.

Accounting procedure under Fixed Capital Method :

(1) Transfer of balance on insolvent partner's Current A/c to his Capital A/c :

Insolvent Partners' Current A/c	Dr.	XXX	
To Insolvent Partners' Capital A/c			XXX

(Being insolvent partner's deficiency in Current A/c transferred to his Capital A/c)

(2) Amount recovered from insolvent partner's estate :

Cash/Bank A/c	Dr.	XXX	
To Insolvent Partners' Capital A/c			XXX

(Being cash recovered from the estate of insolvent partner)

(3) Transfer of deficiency on insolvent Partner's Capital A/c to solvent Partners' Current Accounts :

Solvent Partners' Current A/cs	Dr.	XXX	
To Insovlent Partners' Capital A/c			XXX

(Being insolvent partners' capital deficiency transferred to solvent partner Current A/c in their profit sharing ratio)

(4) Transfer of balance on solvent Partners' Current A/cs to their Capital A/cs :

Solvent Partners' Current A/cs	Dr.	XXX	
To Solvent Partners' Capital A/cs			XXX

(Being balance on Current A/cs transferred to Capital A/cs)

(5) Final settlement of solvent Partners' Capital dues :

Solvent Partners' Capital A/cs	Dr.	XXX	
To Cash/Bank A/c			XXX

(Being amount paid to solvent partners in final settlement)

Accounting procedure under Fluctuating Capital Method : Under this method all the adjustments are made through Capital Accounts of the partners.

Transfer of capital deficiency of insolvent partner to solvent partners' Capital A/cs :

Solvent Patners' Capital A/cs	Dr.	XXX	
To Insolvent Partners' Capital A/c			XXX

(Being insolvent partners' capital deficeincy transferred to solvent Partners' Capital A/cs in their profit sharing ratio)

When all partners are insolvent : If all the partners of a firm become insolvent, it is clear that their capital deficiencies will have to be borne by the outside creditors, who will not be able to recover their claims in full but will get only a part of their dues in terms of a dividend of so many paise in the rupee. The available cash in the firm is first used to pay dissolution expenses. The balance amount is paid to creditors proportionately in the ratio of their respective balances.

Example : If there are Creditors of ₹ 5,000, Bills Payable of ₹ 3,000 and Loans of ₹ 2,000, the available money will be distributed to them in the ratio of 5 : 3 : 2. For this, the following accounting entry is to be passed :

Various Liabilities A/cs	Dr.	XXX	
To Cash/Bank A/c			XXX

(Being liabilities paid and remaining amount transferred to Deficiency A/c)

Closing of Partners' Capital A/cs :

Deficiency A/c	Dr.	XXX	
To Partners' Capital A/cs			XXX

(Being Partners' Capital A/cs closed by transferring their deficiency)

Accounting treatment before making distribution of insolvent partners' capital deficiency :

(1) Transfer only assets to Realisation A/c at their book values to its debit side.

(2) Outsiders liabilities should not be transferred to Realisation A/c. Open each liability's A/c separately.

(3) Adjust the loss on realisation to Partners' Current A/cs or Partners' Capital A/cs as the case may be.

(4) Close the Partners' Current A/cs and also the Partners' Loan A/cs by transferring the balances of such accounts to the capital accounts of the respective partners.

(5) Record the amount of cash recovered from the partners by debiting Cash/Bank A/c and crediting related Partners' Capital A/cs.

(6) Close the Partner's Capital A/cs and transfer the capital deficiency of each partner to a separate account called 'Deficiency A/c'.

(7) Distribute the available cash (i.e. opening balance of cash + cash received on sale of assets + cash received from private estate of partners) to various creditors in the proportion of their dues.

(8) Close the Various Liabilities A/cs by transferring unpaid balances to 'Deficiency A/c'.

(9) Ultimately 'Deficiency A/c' is suppose to tally.

SOLVED PROBLEM

Asha, Bela and Nisha were partners sharing profits and losses in the ratio of 3 : 2 : 1. On 31st March, 2020 their Balance Sheet was as follows :

Balance Sheet as on 31st March, 2020

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Sundry Creditors		30,800	Cash at Bank		7,000
Bills Payable		7,200	Stock		39,600
Asha's Loan A/c		20,000	Debtors	30,000	
Capital Accounts :			Less : R.D.D.	2,000	28,000
Asha		40,000	Joint Life Policy		8,000
Bela		32,000	Machinery		87,400
Nisha		16,000			
General Reserve		24,000			
		1,70,000			1,70,000

The firm was dissolved on 31st March, 2020 and the assets realised as follows :

(1) Joint Life Policy was taken over by Asha at ₹ 10,000.

(2) Stock realised : ₹ 36,000, Debtors realised : ₹ 29,000, Machinery was sold for ₹ 72,000.

(3) Liabilities were paid in full. In addition one bill for ₹ 700 under discount was dishonoured and had to be taken up by the firm.

(4) There were no realisation expenses.

Give the Journal entries and prepare necessary Ledger Accounts to close the books of the firm.

Solution :

In the Journal of partnership firm

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	General Reserve A/c Dr. To Asha's Capital A/c To Bela's Capital A/c To Nisha's Capital A/c (Being the amountt of general reserve divided and credited to Partners' Capital A/cs)		24,000	 12,000 8,000 4,000
2	Realisation A/c Dr. To Stock A/c To Debtors A/c To Joint Life Policy A/c To Machinery A/c (Being assets transferred at book values to Realisation A/c)		1,65,000	 39,600 30,000 8,000 87,400
3	Sundry Creditors A/c Dr. Bills Payable A/c Dr. R.D.D. A/c Dr. To Realisation A/c (Being external liabilities at book values and R.D.D. transferred to Realisation A/c)		30,800 7,200 2,000	 40,000
4	Asha's Capital A/c Dr. To Realisation A/c (Being joint life policy taken over by Asha)		10,000	 10,000
5	Bank A/c Dr. To Realisation A/c (Being assets realised and amount deposited into the bank)		1,37,000	 1,37,000
6	Realisation A/c Dr. To Bank A/c (Being external liabilities paid at book value)		38,000	 38,000
7	Realisation A/c Dr. To Bank A/c (Being bill dishonoured and amount of discounted bill paid to bank)		1,400	 1,400
8	Asha's Loan A/c Dr. To Bank A/c (Being loan taken from Asha now paid)		20,000	 20,000

9	Asha's Capital A/c Dr. Bela's Capital A/c Dr. Nisha's Capital A/c Dr. To Realisation A/c (Being loss incurred or realisation adjusted to Partners' Capital A/cs)		8,700 5,800 2,900	17,400
10	Asha's Capital A/c Dr. Bela's Capital A/c Dr. Nisha's Capital A/c Dr. To Bank A/c (Being amount due paid in final settlement)		33,300 34,200 17,100	84,600

Ledger Accounts :

In the books of Partnership Firm

Dr. **Realisation Account** **Cr.**

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Sundry Assets :			By Sundry Liabilities :		
Stock	39,600		Sundry Creditors	30,800	
Debtors	30,000		Bills Payable	7,200	
Joint Life Policy	8,000		R.D.D.	2,000	40,000
Machinery	87,400	1,65,000	By Asha's Capital A/c :		10,000
To Bank A/c :			(Joint life policy taken over)		
Sundry Creditors	30,800				
Bills Payable	7,200	38,000	By Bank A/c :		
To Bank A/c		1,400	Stock	36,000	
(Discounted bill dishonoured)			Debtors	29,000	
			Machinery	72,000	1,37,000
			By Partners' Capital A/cs (Loss) :		
			Asha	8,700	
			Bela	5,800	
			Nisha	2,900	17,400
		2,04,400			2,04,400

Dr. **Partners' Capital Accounts** **Cr.**

Particulars	Asha (₹)	Bela (₹)	Nisha (₹)	Particulars	Asha (₹)	Bela (₹)	Nisha (₹)
To Realisation A/c (Loss)	8,700	5,800	2,900	By Balance b/d	40,000	32,000	16,000
To Realisation A/c	10,000	–	–	By General Reserve A/c	12,000	8,000	4,000
To Bank A/c	33,300	34,200	17,100				
	52,000	40,000	20,000		52,000	40,000	20,000

Dr. **Bank Account** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	7,000	By Realisation A/c	38,000
To Realisation A/c	1,37,000	By Realisation A/c	1,400
		By Asha's Loan A/c	20,000
		By Asha's Capital A/c	33,300
		By Bela's Capital A/c	34,200
		By Nisha's Capital A/c	17,100
	1,44,000		1,44,000

EXERCISE

(A) Select the most appropriate alternatives from the following and rewrite the sentences :

*(1) (1) In case of dissolution assets and liabilities are transferred to .... Account.
(a) Bank (b) Partner's Capital (c) Realisation (d) Partner's Current

(2) Dissolution expenses are credited to .... Account.
(a) Realisation (b) Cash / Bank (c) Partner's Capital (d) Partner's Loan

(3) Deficiency of insolvent partner will be suffered by solvent partners in their .... ratio.
(a) capital (b) profit sharing (c) sale (d) liquidity

(4) If any asset is taken over by partner from firm his Capital Account will be ....
(a) credited (b) debited (c) added (d) divided

(5) If any unrecorded liability is paid on dissolution of the firm .... Account is debited.
(a) Cash/Bank (b) Realisation (c) Partner's Capital (d) Loan

(6) Partnership is completely dissolved when the partners of the firm become ....
(a) solvent (b) insolvent (c) creditor (d) debtors

(7) Assets and liabilities are transferred to Realisation Account at their .... values.
(a) market (b) purchase (c) sale (d) book

(8) If the number of partners in a firm falls below two, the firm stands ....
(a) dissolved (b) established (c) realisation (d) restructured

(9) Realisation Account is .... on realisation of asset.
(a) debited (b) credited (c) deducted (d) closed

(10) All activities of partnership firm ceases on .... of firm.
(a) dissolution (b) admission (c) retirement (d) death

Ans. (1) Realisation (2) Cash / Bank (3) profit sharing (4) debited (5) Realisation (6) insolvent (7) book (8) dissolved (9) credited (10) dissolution

(2) (1) .... means winding up of partnership firm.
(a) Dissolution (b) Formation (c) Retirement (d) Death

(2) When a partner takes over a liability, his Capital Account is ....
(a) debited (b) credited (c) deducted (d) none of these

(3) Dissolution expenses are debited to the .... Account.

(a) Profit and Loss (b) Trading (c) Capital (d) Realisation

(4) The debit balance on Realisation A/c indicates ....

(a) profit (b) loss (c) gain (d) deficiency

(5) The partner who is unable to pay his liabilities is called an .... partner.

(a) solvent (b) working (c) insolvent (d) sleeping

(6) Debit balance of insolvent Partner's Capital Account is known as ....

(a) capital deficiency (b) capital surplus (c) profit (d) loss

Ans. (1) Dissolution (2) credited (3) Realisation (4) loss (5) insolvent (6) capital deficiency

(B) Write a word/phrase/term which can substitute each of the following statements :

Statement	Ans. (word/phrase/term)
* (1) Debit balance of Realisation Account.	Realisation Loss
* (2) Winding up of partnership business.	Dissolution of Partnership
* (3) An account opened to find out the profit or loss on sale of assets and settlement of liabilities.	Realisation A/c
* (4) Debit balance of an Insolvent Partner's Capital Account.	Capital Deficiency
* (5) Credit balance of Realisation Account.	Realisation Profit
* (6) Conversion of asset into cash on dissolution of firm.	Realisation
* (7) Liability likely to arise in future on happening of certain events.	Contingent Liabilities
* (8) Assets which are not recorded in the books of accounts.	Unrecorded Assets
* (9) The account which shows realisation of assets and discharge of liabilities.	Realisation A/c
* (10) Expenses incurred on dissolution of firm.	Dissolution/Realisation Expenses
(11) The account which records all realisable assets and external liabilities of the firm on dissolution.	Realisation Account
(12) The partner who bears capital deficiency of an insolvent partner. **OR** The person who bears insolvency loss of an insolvent partner.	Solvent Partner
(13) Account to which the ultimate unpaid balances on the outside liability accounts are transferred on dissolution.	Deficiency Account

* (C) State whether the following statements are True or False with reasons :

(1) The firm must be dissolved on the retirement of a partner.

Ans. This statement is **False**.

On the retirement of a partner, if partnership agreement allows, then the remaining partner can continue the business activities. It means firm is not to dissolved.

(2) On dissolution Cash / Bank Account is closed automatically.

Ans. This statement is **True**.

As firm is dissolved, there is no question of any business activities to be carried out further and so Cash / Bank Account is also not necessary. Therefore on dissolution Cash / Bank Account is closed automatically.

(3) On dissolution Bank overdraft is transferred to Realisation Account.

Ans. This statement is **True**.

As a sundry liability of the business, bank overdraft is a liability of a firm and hence, it is transferred to Realisation Account at the time of dissolution and paid as third party Liability.

(4) A solvent partner having debit balance to his Capital Account does not share the deficiency of insolvent partner Capital Account.

Ans. This statement is **False**.

In the partnership, partner's liability is unlimited so, a solvent partner having debit balance to his Capital Account should share the deficiency of insolvent partner capital account.

(5) At the time of dissolution of partnership all assets should be transferred to Realisation Account.

Ans. This statement is **False**.

At the time of dissolution of partnership, cash account and Bank A/c are not transferred to Realisation A/c. Similarly, if any asset is taken over by partner or by any creditor then that asset is transferred to the concern person's account and not to the Realisation Account.

(6) Debit balance of insolvent partner's Capital Account is known as capital deficiency.

Ans. This statement is **True**.

Debit balance of Partners' Capital Account means excess of drawings than the capital credit balance. In case of insolvent partner, debit balance of Capital Account means liabilities which he cannot pay. It means capital deficiency.

(7) At the time of dissolution, loan from partner will be transferred to Realisation Account.

Ans. This statement is **False**.

At the time of dissolution, loan from partner will be paid after the payment of liabilities of third parties the firm. It is not transferred to Realisation Account. Partner's Loan A/c is separately opened and paid accordingly.

(8) Dissolution takes place when the relation among the partner's comes to an end.

Ans. This statement is **True**.

As per definition, Dissolution means to windup or to close down, and it is possible only when relations among the partners in a partnership firm comes to an end.

(9) The insolvency loss at the time of dissolution of the firm is shared by the solvent partner's in their profit sharing ratio.

Ans. This statement is **True**.

In the partnership, partners liability is unlimited and in case of insolvency loss, legally solvent partners are ultimately liable and are suppose to bear the loss of insolvent partner in their profit sharing ratio.

(10) Realisation loss is not transferred to insolvent partner's Capital Account.

Ans. This statement is **False**.

All partners of the firm are responsible for Loss on realisation and hence loss on realisation is supposed to be transferred to all Partners' Capital Account, without any discrimination of solvent or insolvent.

(2) **(1) The cash and bank balances are not transferred to the Realisation A/c.**

Ans. This statement is **True**.

Cash or bank balance are liquid assets. They cannot be sold or realised. The cash and / or bank balances are recorded in the Cash and / or Bank Account. All cash and / or bank transactions, at the time of Realisation, are recorded in the Cash and Bank Accounts. Therefore, Cash and Bank balance are not transferred to Realisation Account.

(2) On dissolution, sundry debtors are transferred to Realisation A/c at their net figure.

Ans. This statement is **False**.

On dissolution, sundry debtors are transferred to Realisation A/c at their Gross value book value and not at their net figure. R.D.D. which is deducted from debtors is not an asset and therefore R.D.D. is transferred to credit side of Realisation A/c and remaining debtors are transferred to debit side of Realisation A/c.

(3) On dissolution of the firm, partner's wife loan is transferred to Realisation A/c.

Ans. This statement is **True**.

Loan taken from partner's wife is external liability and it is third party's liability. So, partner's wife loan is transferred to Realisation A/c at the time of dissolution of the firm.

(4) A liability that is not shown in the Balance Sheet on the date of dissolution cannot be repaid.

Ans. This statement is **False**.

Liability of the firm which is not yet recorded in the book of accounts is called unrecorded liability. At the time of dissolution unrecorded liability is supposed to be paid though it is not shown in the Balance Sheet.

(5) A debit balance of Realisation A/c indicates profit on realisation.

Ans. This statement is **False**.

A debit balance of Realisation A/c means payment is more than the receipt. When payments exceed receipts there is a loss. Hence, debit balance on realisation account indicates loss on realisation and not profit.

* (D) Calculate the following :

(1) Vinod, Vijay and Vishal are partners in a firm sharing profit and losses in the ratio of 3 : 2 :1. Vishal becomes insolvent and his capital deficiency is ₹ 6000. Distribute the capital deficiency among the solvent partner.

Ans. Here, capital deficiency of ₹ 6000 is to be distributed among continuing partners in their profit and loss sharing ratio. i.e. 3 : 2

Share of deficiency for Vinod = $6,000 \times \frac{3}{5}$ = ₹ 3,600

Share of deficiency for Vijay = $6,000 \times \frac{2}{5}$ = ₹ 2,400

Vinod and Vijay will bear ₹ 3,600 and ₹ 2,400 of Vishal's capital deficiency.

(2) Creditors ₹ 30,000, Bills Payable ₹ 20,000 and Bank Loan ₹ 10,000. Available Bank balance ₹ 40,000. What will be the amount that creditors will get in case of all partners insolvency ?

Ans. Ratio of creditors, Bills payable and Bank Loan = 30,000 : 10,000 : 10,000 i.e., 3 : 2 : 1

Amount received by creditors = $\frac{3}{3+2+1} \times 40,000 = \frac{3}{6} \times 40,000$= ₹ 20,000.

(3) Insolvent Partner Capital A/c debit side total is ₹ 10,000 and credit side total is ₹ 6,000. Calculate deficiency.

Ans. Deficiency of insolvent partner = Debit side total – Credit side total = 10,000 – 6,000 = ₹ 4,000.

(4) Insolvent Partners Capital A/c debit side is ₹ 15,000 and insolvent partner brought cash ₹ 6,000. Calculate the amount of insolvency loss to be distributed among the solvent partners.

Ans. ₹ 9,000 (15,000 – 6,000) is the amount of insolvency loss to be distributed among the solvent partners.

(5) Realisation profit of a firm is ₹ 6,000, partners share profit and loss in the ratio of 3 : 2 : 1. Calculate the amount of realisation profit to be credited to Partners' Capital A/c.

Ans. Distribution of ₹ 6,000 in 3 : 2 : 1 ratio

$6{,}000 \times \frac{3}{6} =$ ₹ 3,000, $6{,}000 \times \frac{2}{6} =$ ₹ 2,000, $6{,}000 \times \frac{1}{6} =$ ₹ 1,000

Amount of realisation profit ₹ 3,000, ₹ 2,000 and ₹ 1,000 is to be credited to Partner's Capital A/c respectively.

(E) Answer in one sentence only :

∗ (1) What is dissolution of the partnership firm ?

Ans. Dissolution of the partnership firm means complete closure of business activities and stoppage of partnership relations among all the partners.

∗ (2) When is Realisation Account opened?

Ans. Realisation Account is opened at the time of dissolution of partnership firm.

∗ (3) Which accounts are not transferred to Realisation Account?

Ans. Cash/Bank balance, Reserve funds, Profit and Loss A/c balance, Partners' Loan accounts, etc. are not transferred to Realisation Account.

∗ (4) Who is called insolvent person?

Ans. Whose capital A/c shows debit balance and who is not in a position to meet his capital deficiency even from his private property is called an insolvent person.

∗ (5) What is capital deficiency?

Ans. The debit balance of insolvent partner's Capital Account which insolvent partner cannot pay is called capital deficiency.

∗ (6) In what proportion is the balance on Realisation Account transferred to Partners' Capital / Current Accounts?

Ans. The balance on Realisation Account is transferred to Partners' Capital / Current Accounts in their profit sharing ratio.

∗ (7) Who should bear the capital deficiency of insolvent partner?

Ans. The capital deficiency of insolvent partner should be borne by the solvent partners.

∗ (8) Which account is debited on repayment of partner's loan?

Ans. Partner's Loan Account is debited on repayment of partner's loan.

∗ (9) Which account is debited on payment of dissolution expenses?

Ans. Realisation Account is debited on payment of dissolution expenses.

(10) What is Realisation Account ?

Ans. An account which is opened by the firm at the time of its dissolution to determine profit or loss on realisation of assets and payment of liabilities is known as Realisation Account.

(11) Why is Realisation Account opened?

Ans. Realisation Account is opened to find out profit or loss made on sale of assets and discharge of liabilities of the partnership firm.

(12) What are realisation or dissolution expenses?

Ans. The expenses incurred by the firm to realise the assets and to liquidate the liabilities of the firm on its dissolution are called realisation or dissolution expenses.

*** (F) Complete the table :**

(1)

Debit side total of Realisation A/c	Credit side total of Realisation A/c	Loss on Realisations
₹ 20,000	?	₹ 4,000

(2)

Creditors	Bills Payable	Third Party Liabilities
₹ 16,000	₹ 12,000	?

(3)

Credit side total of Realisation A/c	Debit side total of Realisation A/c	Profit on Realisation
₹ 21,000	₹ 16,000	?

(4)

Debit side total of Capital A/c	Credit side total of Capital A/c	Cash brought by partner
₹ 51,000	?	₹ 17,000

(5)

Capital Deficiency	Cash brought by insolvent partner	Insolvent Loss
?	₹ 7,000	₹ 21,000

Ans.

(1)

Debit side total of Realisation A/c	Credit side total of Realisation A/c	Loss on Realisations
₹ 20,000	**₹ 16,000**	₹ 4,000

(2)

Creditors	Bills Payable	Third Party Liabilities
₹ 16,000	₹ 12,000	**₹ 28,000**

(3)

Credit side total of Realisation A/c	Debit side total of Realisation A/c	Profit on Realisation
₹ 21,000	₹ 16,000	**₹ 5,000**

(4)

Debit side total of Capital A/c	Credit side total of Capital A/c	Cash brought by partner
₹ 51,000	**₹ 34,000**	₹ 17,000

(5)

Capital Deficiency	Cash brought by insolvent partner	Insolvent Loss
₹ 28,000	₹ 7,000	₹ 21,000

SOLUTIONS OF TEXTUAL PROBLEMS

(Simple Dissolution)

*** Q. 1. Ganesh and Kartik are partners sharing profits and losses equally. They decided to dissolve the firm on 31st March, 2018. Their Balance Sheet was as under :**

Balance Sheet as on 31st March, 2018

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	18,400	Building	88,000
Bills Payable	5,600	Furniture	12,000
Reserve Fund	20,000	Debtors	32,000
Capital A/cs :		Stock	24,000
Ganesh	40,000	Bills Receivable	4,000
Kartik	80,000	Cash	4,000
	1,64,000		1,64,000

Assets were realised as under :

Building ₹ 82,000, Debtors ₹ 22,000, Stock ₹ 20,000. Bills Receivable ₹ 3,200 and Ganesh agreed to take over Furniture for ₹ 10,000. Realisation Expenses amounted to ₹ 2,000.

Show Realisation A/c, Partners' Capital A/c and Cash A/c.

Solution :

In the books of Ganesh and Kartik

Dr. **Realisation Account** **Cr.**

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Sundry Assets A/c			By Sundry Liabilities A/c		
Building	88,000		Creditors	18,400	
Furniture	12,000		Bills Payable	5,600	24,000
Debtors	32,000		By cash A/c		
Stock	24,000		Building	82,000	
Bills Receivable	4,000	1,60,000	Debtors	22,000	
To Cash A/c			Stock	20,000	
Creditors	18,400		Bills Receivable	3,200	1,27,200
Bills Payable	5,600		By Ganesh's Capital A/c		
Realisation Expense	2,000	26,000	Furniture		10,000
			By Partners' Capital A/c		
			(Loss on Realisation transferred)		
			Ganesh	12,400	
			Kartik	12,400	24,800
		1,86,000			1,86,000

Dr. **Partners' Capital Accounts** **Cr.**

Particulars	Ganesh (₹)	Kartik (₹)	Particulars	Ganesh (₹)	Kartik (₹)
To Realisation A/c (Furniture)	10,000	–	By Balance b/d	40,000	80,000
			By Reserve Fund A/c	10,000	10,000
To Realisation A/c (Loss on Realisation)	12,400	12,400			
To Cash A/c	27,600	77,600			
	50,000	90,000		50,000	90,000

Dr. **Cash Account** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	4,000	By Realisation A/c (Liabilities)	26,000
To Realisation A/c (Assets)	1,27,200	By Ganesh's Capital A/c	27,600
		By Kartik's Capital A/c	77,600
	1,31,200		1,31,200

Working Notes :

(1) Amount paid to Ganesh and Kartik are ₹ 27,600 and ₹ 77,600 respectively.

(2) Loss on Realisation and Reserve fund amounts are equally distributed.

(3) Furniture is taken over by Ganesh so his Capital A/c is debited.

*** Q. 2. Leela, Manda and Kunda are partners in the firm 'Janki Stores' sharing profits and losses in the ratio of 3 : 2 : 1 respectively. On 31st March, 2018 they decided to dissolve the firm when their Balance Sheet was as under :**

Balance Sheet as on 31st March, 2018

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	28,800	Building	1,02,000
Bills Payable	21,600	Machinery	73,000
Capital A / cs :		Motor Car	1,67,600
Leela	2,27,160	Goodwill	45,600
Manda	1,44,000	Investment	62,400
Kunda	1,08,000	Debtors	30,600
		Stock	45,000
		Bank	3,360
	5,29,560		5,29,560

Leela agreed to take over the Building at ₹ 1,23,600. Manda took over Goodwill, Stock and Debtors at book values and agreed to pay Creditors and Bills payable. Motor car and Machinery realised ₹ 1,51,080 and ₹ 31,680 respectively. Investments were taken by Kunda at an agreed value of ₹ 55,440. Realisation expenses amounted to ₹ 6,800.

Pass necessary entries in the books of 'Janki Stores'.

Solution :

In the books of 'Janki Stores'
Journal Entries

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
1	Realistion A/c	Dr.		5,26,200	
	To Building A/c				1,02,000
	To Machinery A/c				73,000
	To Motor Car A/c				1,67,600
	To Goodwill A/c				45,600
	To Investments A/c				62,400
	To Debtors A/c				30,600
	To Stock A/c				45,000
	(Being sundry assets transferred to Realisation A/c)				
2	Creditors A/c	Dr.		28,800	
	Bills Payable A/c	Dr.		21,600	
	To Realisation A/c				50,400
	(Being sundry liabilities transferred to Realisation A/c)				
3	Bank A/c	Dr.		1,82,760	
	To Realisation A/c				1,82,760
	(Being amount received for assets sold)				
4	Realisation A/c	Dr.		6,800	
	To Bank A/c				6,800
	(Being amount paid for Realisation expense)				
5	Leela's Capital A/c	Dr.		1,23,600	
	To Realisation A/c				1,23,600
	(Being Building taken over by Leela)				
6	Manda's Capital A/c	Dr.		1,21,200	
	To Realisation A/c				1,21,200
	(Being Goodwill, Stock, Debtors taken over by Manda)				
7	Kunda's Capital A/c	Dr.		55,440	
	To Realisation A/c				55,440
	(Being Investments taken over by Kunda)				
8	Realisation A/c	Dr.		50,400	
	To Manda's Capital A/c				50,400
	(Being creditors and Bills payable amount paid by Manda)				

9	Leela's Capital A/c Dr.		25,000	
	Manda's Capital A/c Dr.		16,667	
	Kunda's Capital A/c Dr.		8,333	
	To Realisation A/c			50,000
	(Being loss of Realisation transferred to Partners' Capital A/c)			
10	Leela's Capital A/c Dr.		78,560	
	Manda's Capital A/c Dr.		56,533	
	Kunda's Capital A/c Dr.		44,227	
	To Realisation A/c			1,79,320
	(Being final settlement made)			

Working Notes :

In the books of Leela, Manda and Kunda

Dr. **Realisation Account** **Cr.**

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Sundry Assets A/c			By Sundry Liabilities A/c		
Building	1,02,000		Creditors	28,800	
Machinery	73,000		Bills Payable	21,600	50,400
Motor Car	1,67,600		By Bank A/c		
Goodwill	45,600		Motor Car	1,51,080	
Investments	62,400		Machinery	31,680	1,82,760
Debtors	30,600		By Leela's Capital A/c		1,23,600
Stock	45,000	5,26,200	Building		
To Bank A/c			By Manda's Capital A/c		
Realisation Expense		6,800	Goodwill	45,600	
To Manda's Capital A/c			Stock	45,000	
Creditors	28,800		Debtors	30,600	1,21,200
Bills Payable	21,600	50,400	By Kunda's Capital A/c		55,440
			Investments		
			By Partners' Capital A/c		
			(Loss on Realisation transferred)		
			Leela	25,000	
			Manda	16,667	
			Kunda	8,333	50,000
		5,83,400			5,83,400

Dr. **Partners' Capital Accounts** **Cr.**

Particulars	Leela (₹)	Manda (₹)	Kunda (₹)	Particulars	Leela (₹)	Manda (₹)	Kunda (₹)
To Realisation A/c (Building)	1,23,600	–	–	By Balance b/d	2,27,160	1,44,000	1,08,000
To Realisation A/c (Goodwill + Stock + Debtors)	–	1,21,200	–	By Realisation A/c (Creditors + B. P.)	–	50,400	–
To Realisation A/c (Investments)	–	–	55,440				
To Realisation A/c (Loss on Realisation)	25,000	16,667	8,333				
To Bank A/c	78,560	56,533	44,227				
	2,27,160	1,94,400	1,08,000		2,27,160	1,94,400	1,08,000

Dr. **Bank Account** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	3,360	By Realisation Expense A/c	6,800
To Realisation A/c (Assets)	1,82,760	By Leela's Capital A/c	78,560
		By Manda's Capital A/c	56,533
		By Kunda's Capital A/c	44,227
	1,86,120		1,86,120

*** Q. 3. Shailesh and Shashank were partners sharing profits and losses in the ratio of 3 : 2. Their Balance Sheet as on 31st March, 2019 was as follows :**

Balance Sheet as on 31st March, 2019

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital Accounts :		Building	7,000
Shailesh	10,000	Plant	9,000
Shashank	6,000	Debtors	14,000
Current Accounts :		Stock	5,000
Shailesh	3,000	Bank	6,000
Shashank	2,000		
Creditors	17,400		
Bills Payable	2,600		
	41,000		41,000

The firm was dissolved on the above date and the assets realised as under :

(1) Plant ₹ 8,000, Building ₹ 6,000, Stock ₹ 4,000 and Debtors ₹ 12,000.

(2) Shailesh agreed to pay off the Bills Payable.

(3) Creditors were paid in full.

(4) Dissolution expenses were ₹ 1,400.

Prepare : Realisation A/c, Partners' Current A/c, Partners' Capital A/c and Bank A/c.

Solution :

In the books of Shailesh and Shashank

Dr. **Realisation Account** **Cr.**

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Sundry Assets A/c			By Sundry Liabilities A/c		
Building	7,000		Creditors	17,400	
Plant	9,000		Bills Payable	2,600	20,000
Debtors	14,000		By Bank A/c		
Stock	5,000	35,000	Plant	8,000	
To Shailesh's Current A/c			Building	6,000	
Bills Payable		2,600	Stock	4,000	
To Bank A/c			Debtors	12,000	30,000
Dissolution Expense	1,400		By Partners' Current A/c		
Creditors	17,400	18,800	(Loss on Realisation		
			transferred)		
			Shailesh	3,840	
			Shashank	2,560	6,400
		56,400			56,400

Dr. **Partners' Current Account** **Cr.**

Particulars	Shailesh (₹)	Shashank (₹)	Particulars	Shailesh (₹)	Shashank (₹)
To Realisation A/c – Loss	3,840	2,560	By Balance b/d	3,000	2,000
To Partners' Capital A/c	1,760	–	By Bills Payable A/c	2,600	
			By Partners' Capital A/c	–	560
	5,600	2,560		5,600	2,560

Dr. **Partners' Capital Account** **Cr.**

Particulars	Shailesh (₹)	Shashank (₹)	Particulars	Shailesh (₹)	Shashank (₹)
To Partner's Current A/c	–	560	By Balance c/d	10,000	6,000
To Bank A/c	11,760	5,440	By Partner's Current A/c	1,760	–
	11,760	6,000		11,760	6,000

Dr. **Bank Account** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	6,000	By Realisation A/c (Exp. and Liabilities)	18,800
To Realisation A/c (Assets)	30,000	By Shailesh's Capital A/c	11,760
		By Shashank's Capital A/c	5,440
	36,000		36,000

*** Q. 4. Asha, Usha and Nisha were partners sharing profits and losses in the ratio of 2 : 2 : 1. The following is the Balance Sheet as on 31st March, 2019.**

Balance Sheet as on 31st March, 2019

Liabilities	Amount (₹)	Assets		Amount (₹)
Capital Accounts :		Machinery		1,00,000
Asha	1,20,000	Investment		48,000
Usha	40,000	Debtors	1,10,000	
Nisha	40,000	Less : R.D.D.	6,000	1,04,000
General Reserve	12,000	Stock		40,000
Creditors	80,000	Profit and Loss A/c		36,000
Asha's Loan A/c	16,000	Bank		8,000
Bills Payable	28,000			
	3,36,000			3,36,000

On the above date, the partners decided to dissolve the firm.

(1) Assets were realised at : Machinery ₹ 90,000, Stock ₹ 36,000, Investment ₹ 42,000 and Debtors ₹ 90,000.

(2) Dissolution expense were ₹ 6,000.

(3) Goodwill of the firm realised ₹ 48,000.

Pass Journal Entries to close the books of firm.

Solution :

In the books of Asha, Usha and Nisha

Journal Entries

Date	Particulars	L.F.	Amount (₹)	Amount (₹)
1	Realisation A/c Dr.		2,98,000	
	To Machinery A/c			1,00,000
	To Investments A/c			48,000
	To Debtors A/c			1,10,000
	To Stock A/c			40,000
	(Being sundry assets transferred to Realisation A/c)			
2	Creditors A/c Dr.		80,000	
	Bills Payable A/c Dr.		28,000	
	R.D.D. A/c Dr.		6,000	
	To Realisation A/c			1,14,000
	(Being sundry liabilities transferred to Realisation A/c)			
3	General Reserve A/c Dr.		12,000	
	To Asha's Capital A/c			4,800
	To Usha's Capital A/c			4,800
	To Nisha's Capital A/c			2,400
	(Being General reserve transferred to Partners' Capital A/c)			

4	Bank A/c Dr. To Realisation A/c (Being assets realised)		3,06,000	 3,06,000
5	Realisation A/c Dr. To Bank A/c (Being Liabilities paid off)		1,14,000	 1,14,000
6	Realisation A/c Dr. To Asha's Capital A/c To Usha's Capital A/c To Nisha's Capital A/c (Being Realisation profit transferred to Partner's Capital A/c)		8,000	 3,200 3,200 1,600
7	Asha's Capital A/c Dr. Usha's Capital A/c Dr. Nisha's Capital A/c Dr. To Bank A/c (Being final settlement made)		1,13,600 33,600 36,800	 1,84,000

Working Notes :

In the books of Asha, Usha and Nisha

Dr. **Realisation Account** **Cr.**

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Sundry Assets A/c			By Sundry Liabilities A/c		
Machinery	1,00,000		Creditors	80,000	
Investments	48,000		Bills Payable	28,000	
Debtors	1,10,000		R.D.D.	6,000	1,14,000
Stock	40,000	2,98,000	By Bank A/c		
To Bank A/c			Machinery	90,000	
Dissolution Expense	6,000		Stock	36,000	
Creditors	80,000		Investments	42,000	
Bills Payable	28,000	1,14,000	Debtors	90,000	
To Partners' Capital A/c			Goodwill	48,000	3,06,000
(Profit on Realisation transferred)					
Asha	3,200				
Usha	3,200				
Nisha	1,600	8,000			
		4,20,000			4,20,000

Dr. **Partners' Capital Accounts** **Dr.**

Particulars	Asha (₹)	Usha (₹)	Nisha (₹)	Particulars	Asha (₹)	Usha (₹)	Nisha (₹)
To Profit and Loss A/c	14,400	14,400	7,200	By Balance b/d	1,20,000	40,000	40,000
To Balance c/d	1,13,600	33,600	36,800	By Realisation A/c	3,200	3,200	1,600
				– Profit			
				By General Reserve A/c	4,800	4,800	2,400
	1,28,000	48,000	44,000		1,28,000	48,000	44,000

Dr. **Bank Account** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	8,000	By Realisation A/c (Liabilities)	1,14,000
To Realisation A/c (Assets)	3,06,000	By Asha's Loan A/c	16,000
		By Asha's Capital A/c	1,13,600
		By Usha's Capital A/c	33,600
		By Nisha's Capital A/c	36,800
	3,14,000		3,14,000

* Q. 5. **Seeta and Geeta are partners in the firm sharing profits and losses in the ratio of 4 :1. They decided to dissolve the partnership on 31st March, 2020 on which date their Balance Sheet stood as follows :**

Balance Sheet as on 31st March, 2020

Liabilities	Amount (₹)	Assets		Amount (₹)
Capital :		Furniture		14,000
Seeta	90,000	Plant		65,000
Geeta	40,000	Trademark		8,000
Sundry Creditors	35,000	Sundry Debtors	48,000	
Bank Loan	15,000	Less : R.D.D.	3,000	45,000
		Stock		30,000
		Cash in hand		10,000
		Advertisement Suspense		8,000
	1,80,000			1,80,000

Additional Information :

(1) Plant and Stock taken over by Seeta at ₹ 78,000 and ₹ 22,000 respectively.

(2) Debtors realised 90 % of the book value and Trademark at ₹ 5,000 and Goodwill was realised for ₹ 27,000.

(3) Unrecorded assets estimated ₹ 4,500 was sold for ₹ 1,500.

(4) ₹ 1,000 Discount were allowed by creditors while paying their claim.

(5) The Realisation expenses amounted to ₹ 3,500.

You are required to prepare Realisation A/c, Cash A/c and Partners' Capital A/c.

Solution :

In the books of Seeta and Geeta

Dr. **Realisation Account** **Cr.**

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Sundry Assets A/c			By Sundry Liabilities A/c		
Furniture	14,000		Bank Loan	15,000	
Plant	65,000		Sundry Creditors	35,000	50,000
Trademark	8,000		By R.D.D. A/c (Transfer)		3,000
Sundry Debtors	48,000		By Seeta's Capital A/c		
Stock	30,000	1,65,000	Plant	78,000	
To Cash A/c			Stock	22,000	1,00,000
Bank Loan	15,000		By Cash A/c		
Sundry Creditors	34,000		Debtors	43,200	
Expenses	3,500	52,500	Trademark	5,000	
To Partners' Capital A/c			Goodwill	27,000	
(Profit)			Unrecorded Assets	1,500	76,700
Seeta	9,760				
Geeta	2,440	12,200			
		2,29,700			2,29,700

Dr. **Partners' Capital Accounts** **Cr.**

Particulars	Seeta (₹)	Geeta (₹)	Particulars	Seeta (₹)	Geeta (₹)
To Advertisement Suspense A/c (Deferred Expense/Loss)	6,400	1,600	By Balance b/d	90,000	40,000
To Realisation A/c (Assets taken over)	1,00,000	–	By Realisation A/c (Profit)	9,760	2,440
To Cash A/c (Final payment)	–	40,840	By Cash A/c (Amount contributed)	6,640	–
	1,06,400	42,440		1,06,400	42,440

Dr. **Cash Account** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	10,000	By Realisation A/c	52,500
To Realisation A/c	76,700	By Geeta's Capital A/c	40,840
To Seeta's Capital A/c	6,640		
	93,340		93,340

Working Notes :

(1) Bank Loan is an external liability of the firm and therefore it is transferred to Realisation A/c.

(2) Amount recovered from Debtors = 90 % of Gross Debtors = $\frac{90}{100} \times 48,000$ = ₹ 43,200.

(3) Amount paid to creditors = Value of Creditors – Discount given = 35,000 – 1,000 = ₹ 34,000.

(4) Sale of unrecorded assets for ₹ 1,500 is recorded on the credit side of Realisation A/c and debit side of Cash A/c.

(5) It is presumed that Furniture realised nothing.

*** Q. 6. Sangeeta, Anita and Smita were in partnership sharing profits and losses in the ratio 2 : 2 : 1. Their Balance Sheet as on 31st March, 2019 was as under :**

Balance Sheet as on 31st March, 2019

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital :		Land	2,10,000
Sangeeta	60,000	Plant	20,000
Anita	40,000	Goodwill	15,000
Smita	30,000	Debtors	1,25,000
Sandhya's Loan A/c	1,20,000	Loans and Advances	15,000
Sundry Creditors	1,20,000	Bank	5,000
Bills Payable	20,000		
	3,90,000		3,90,000

They decided to dissolve the firm as follows :

(1) Assets realised as : Land recovered ₹ 1,80,000; Goodwill for ₹ 75,000; Loans and Advance realised ₹ 12,000; 10 % of the Debts proved bad.

(2) Sangeeta took Plant at book value.

(3) Creditors and Bills payable paid at 5 % discount.

(4) Sandhya's loan was discharged along with ₹ 6,000 as interest.

(5) There was a contingent liability in respect of bills of ₹ 1,00,000 which was under discount. Out of them, a holder of one bill of ₹ 20,000 became insolvent.

Show Realisation Account, Partners' Capital Account and Bank Account.

Solution : **In the books of Sangeeta, Anita and Smita**

Dr **Realisation Account** **Cr.**

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Sundry Assets A/c			By Sundry Liabilities A/c		
Land	2,10,000		Sundry Creditors	1,20,000	
Plant	20,000		Bills Payable	20,000	
Goodwill	15,000		Sandhya's Loan	1,20,000	2,60,000
Debtors	1,25,000		By Sangeeta's Capital A/c		20,000
Loans and Advances	15,000	3,85,000	(Plant)		
To Bank A/c			By Bank A/c		
Creditors	1,14,000		Land	1,80,000	
Bills Payable	19,000	1,33,000	Goodwill	75,000	
To Bank A/c			Loans and Advances	12,000	
Sandhya's Loan		1,26,000	Debtors	1,12,500	3,79,500
To Bank A/c		20,000	By Partners' Capital A/c		
(Contingent liability paid)			(Loss on Realisation		
			transferred)		
			Sangeeta	1,800	
			Anita	1,800	
			Smita	900	4,500
		6,64,000			6,64,000

Dr. **Partners' Capital Accounts** **Cr.**

Particulars	Sangeeta (₹)	Anita (₹)	Smita (₹)	Particulars	Sangeeta (₹)	Anita (₹)	Smita (₹)
To Realisation A/c	20,000	–	–	By Balance b/d	60,000	40,000	30,000
To Realisation A/c – Loss	1,800	1,800	900				
To Bank A/c	38,200	38,200	29,100				
	60,000	40,000	30,000		60,000	40,000	30,000

Dr. **Bank Account** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	5,000	By Sandhya's Loan A/c	1,26,000
To Realisation A/c – Assets	3,79,500	By Realisation A/c	20,000
		By Realisation A/c – Liabilities	1,33,000
		By Sangeeta's Capital A/c	38,200
		By Anita's Capital A/c	38,200
		By Smita's Capital A/c	29,100
	3,84,500		3,84,500

Working Notes :

(1) Amount paid towards Sandhya's Loan = Loan amount + Interest due on loan
= 1,20,000 + 6,000 = ₹ 1,26,000

(2) Amount received from Debtors = Debtors – Bad debts
= 1,25,000 – 10 % of 1,25,000 = 1,25,000 – 12,500
= ₹ 1,12,500

(3) Amount paid to Creditors = Creditor – 5 % discount
= 1,20,000 – 5 % on 1,20,000 = 1,20,000 – 6,000
= ₹ 1,14,000

(4) Amount paid towards Bills payable = Bills payable – 5 % discount
= 20,000 – 5 % on 20,000
= 20,000 – 1,000 = ₹ 19,000

(5) Bill of ₹ 1,00,000 was discounted with the Bank. On the due date bank could not recover ₹ 20,000 from one bill holder as he was declared insolvent. Therefore, we required to settle that contingent liability of ₹ 20,000.

*** Q. 7. Saiesh, Sumit and Hemant were in partnership sharing profits and losses in the ratio 2 : 2 : 1. They decided to discover their partnership firm on 31st March, 2019 and their Balance Sheet on that date stood as :**

Balance Sheet as on 31st March, 2019

Liabilities		Amount (₹)	Assets	Amount (₹)
Capital :			Plant	1,20,000
Saiesh	90,000		Debtors	45,000
Sumit	60,000		Stock	75,000
Hemant	30,000	1,80,000		
Loan		12,000		
Sundry Creditors		9,000		
Bank Overdraft		39,000		
		2,40,000		2,40,000

In was agreed that;

(1) Saiesh to discharge Loan and to take Debtors at book value.

(2) Plant realised ₹ 1,35,000.

(3) Stock realised ₹ 72,000.

(4) Creditors were paid off at a discount of ₹ 45.

Show Realisation Account, Partners' Capital Account and Bank Account.

Solution : **In the books of Saiesh, Sumit and Hemant**

Dr. **Realisation Account** **Cr.**

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Sundry Assets A/c			By Sundry Liabilities A/c		
Plant	1,20,000		Loan	12,000	
Debtors	45,000		Sundry Creditors	9,000	21,000
Stock	75,000	2,40,000	By Bank A/c		
To Bank A/c		8,955	Plant	1,35,000	
Sundry Creditors			Stock	72,000	2,07,000
To Saiesh's Capital A/c – Loan		12,000	By Saiesh's Capital A/c		45,000
To Partners' Capital A/c			Debtors		
(Profit on Realisation transferred)					
Saiesh	4,818				
Sumit	4,818				
Hemant	2,409	12,045			
		2,73,000			2,73,000

Dr. **Partners' Capital Accounts** **Cr.**

Particulars	Saiesh (₹)	Sumit (₹)	Hemant (₹)	Particulars	Saiesh (₹)	Sumit (₹)	Hemant (₹)
To Debtors A/c	45,000	–	–	By Balance b/d	90,000	60,000	30,000
To Bank A/c	61,818	64,818	32,409	By Loan A/c	12,000	–	–
				By Realisation A/c – Profit	4,818	4,818	2,409
	1,06,818	64,818	32,409		1,06,818	64,818	32,409

Dr. **Bank Account** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Realisation A/c – (Assets)	2,07,000	By Balance b/d (overdraft)	39,000
		By Realisation A/c	8,955
		By Saiesh's Capital A/c	61,818
		By Sumit's Capital A/c	64,818
		By Hemant's Capital A/c	32,409
	2,07,000		2,07,000

(When one partner become Insolvent)

*** Q. 8. Sitaram, Gangaram and Rajaram are partners sharing profits and losses in the ratio of 4 : 2 : 3. On 1st April, 2019 they agreed to dissolve the partnership, their Balance Sheet was as follows :**

Balance Sheet as on 31st March, 2019

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital :		Building	55,000
Sitaram	65,000	Machinery	25,000
Gangaram	45,000	Furniture	12,000
Rajaram	7,000	Investment	15,000
Reserve Fund	18,000	Bills Receivable	3,500
Profit and Loss Account	5,400	Sundry Debtors	21,000
Loan from Tukaram	10,000	Stock	28,000
Sundry Creditors	12,000	Cash in Hand	5,500
Bills Payable	4,600	Cash at Bank	2,000
	1,67,000		1,67,000

The assets realised : Building ₹ 46,750; Machinery ₹ 18,550; Furniture ₹ 9,600; Investment ₹ 10,650; Bill Receivable and Debtors ₹ 20,750. All the liabilities were paid off. The cost of realisation was ₹ 800. Rajaram becomes bankrupt and ₹ 1,100 only was recovered from his estate.

Show Realisation Account, Bank Account and Capital Account of the partners.

Solution : **In the books of Sitaram, Gangaram and Rajaram**

Dr. **Realisation Account** **Cr.**

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Sundry Assets A/c			By Sundry Liabilities A/c		
Building	55,000		Loan from Tukaram	10,000	
Machinery	25,000		Sundry Creditors	12,000	
Furniture	12,000		Bills Payable	4,600	26,600
Investments	15,000		By Bank A/c		
Bills Receivable	3,500		Building	46,750	
Sundry Debtors	21,000		Machinery	18,550	
Stock	28,000	1,59,500	Furniture	9,600	
To Bank A/c			Investments	10,650	
Loan from Tukaram	10,000		Bills Receivable and		
Realisation Expense	800		Debtors	20,750	1,06,300
Sundry Creditors	12,000		By Partners' Capital A/c		
Bills Payable	4,600	27,400	(Loss on Realisation		
			transferred)		
			Sitaram	24,000	
			Gangaram	12,000	
			Rajaram	18,000	54,000
		1,86,900			1,86,900

Dr. **Partners' Capital Accounts** **Cr.**

Particulars	Sitaram (₹)	Gangaram (₹)	Rajaram (₹)	Particulars	Sitaram (₹)	Gangaram (₹)	Rajaram (₹)
To Realistion A/c – Loss	24,000	12,000	18,000	By Balance b/d	65,000	45,000	7,000
To Rajaram's Capital A/c	1,400	700	–	By Reserve Fund A/c	8,000	4,000	6,000
To Bank A/c	50,000	37,500		By Profit and Loss A/c	2,400	1,200	1,800
				By Bank A/c (Amount recovered)	–	–	1,100
				By Sitaram's Capital A/c	–	–	1,400
				By Gangaram's Capital A/c	–	–	700
	75,400	50,200	18,000		75,400	50,200	18,000

Dr. **Bank Account** **Dr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	2,000	By Realisation A/c – Liabilities	27,400
To Cash A/c	5,500	By Sitaram's Capital A/c	50,000
To Realisation A/c – Assets	1,06,300	By Gangaram's Capital A/c	37,500
To Rajarams' Capital A/c	1,100		
	1,14,900		1,14,900

Working Notes :

(1) ₹ 1,100 is recovered from Rajaram's estate which is recorded in credit side of Rajaram's Capital Account and on debit side of Bank A/c.

(2) Capital deficiency of Rajaram = Debit total of Capital A/c – Credit total of Capital A/c
= 18,000 – 15,900 = ₹ 2,100

Deficit amount of Rajaram A/c ₹ 2,100 is distributed among continuing partners' in 2 : 1 ratio.

*** Q. 9. Following is the Balance Sheet of Vaibhav, Sanjay and Santosh**

Balance Sheet as on 31st March, 2019

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital Accounts :		Machinery	6,000
Vaibhav	36,000	Goodwill	9,000
Sanjay	27,000	Stock and Debtors	57,000
Creditors	12,000	Profit and Loss Account	18,000
Bank Overdraft	18,000	Santosh's Capital	3,000
	93,000		93,000

Santosh is declared insolvent so firm is dissolved and assets realised as follows :

(1) Stock and Debtors ₹ 54,000, Goodwill – NIL, Machinery at book value.

(2) Creditors allowed discount at 10 %.

(3) Santosh could pay only 25 paise in rupee of the balance due.

(4) Profit sharing ratio was 8 : 4 : 3.

(5) A contingent liability against the firm ₹ 9,000 is cleared.

Give Ledger Account to close to books of the firm.

Solution : **In the books of Vaibhav, Sanjay and Santosh**

Dr. **Realisation Account** **Cr.**

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Sundry Assets A/c			By Sundry Liabilities A/c		12,000
Machinery	6,000		– Creditors		
Goodwill	9,000		By Bank A/c		
Stock and Debtors	57,000	72,000	Stock and Debtors	54,000	
To Bank A/c			Machinery	6,000	60,000
Creditors	10,800		By Partners' Capital A/c		
Contingent Liability	9,000	19,800	(Loss on Realisation		
			transferred)		
			Vaibhav	10,560	
			Sanjay	5,280	
			Santosh	3,960	19,800
		91,800			91,800

Dr. **Partners' Capital Accounts** **Cr.**

Particulars	Vaibhav (₹)	Sanjay (₹)	Santosh (₹)	Particulars	Vaibhav (₹)	Sanjay (₹)	Santosh (₹)
To Balance c/d	–	–	3,000	By Balance b/d	36,000	27,000	–
To Profit and Loss A/c	9,600	4,800	3,600	By Bank A/c (25 % of due amount)	–	–	2,640
To Realisation A/c – Loss	10,560	5,280	3,960				
To Santosh's Capital A/c	5,280	2,640	–	By Vaibhav's Capital A/c	–	–	5,280
To Bank A/c	10,560	14,280	–	By Sanjay's Capital A/c	–	–	2,640
	36,000	27,000	10,560		36,000	27,000	10,560

Dr. **Bank Account** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Realisation A/c – Assets	60,000	By Balance b/d (overdraft)	18,000
To Santosh's Capital A/c (25 % of amount due received from him)	2,640	By Realisation A/c – Liabilities	19,800
		By Vaibhav's Capital A/c	10,560
		By Sanjay's Capital A/c	14,280
	62,640		62,640

Working Notes :

(1) Contingent liability paid, so Realisation A/c is debited and Bank A/c is credited.

(2) Santosh could pay only 25 paise in a rupee of the balance due i.e.

Balance due from Santosh (Debit side of Partners Capital A/c) = ₹ 10,560

25 % of ₹ 10,560 = ₹ 2,640 (Amount recorded on debit side of Bank A/c)

Capital deficiency of Santosh = 10,560 – 2,640 = ₹ 7,920

₹ 7,920 to be distributed among continuing partner in their profit-loss ratio = 8 : 4 i.e. 2 : 1.

$7{,}920 \times \frac{2}{3} = ₹\ 5{,}280$

$7{,}920 \times \frac{1}{3} = ₹\ 2{,}640$

(When Two Partners become Insolvent)

*** Q. 10. Shweta, Nupur and Sanika are partners sharing profits and losses in the ratio of 3 : 2 : 1. Their Balance Sheet as on 31st March, 2019 was as follows :**

Balance Sheet as on 31st March, 2019

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital A/cs :		Sundry Assets	1,60,000
Shweta	65,000	Cash at Bank	5,000
Nupur	15,000	Capital A/c : Sanika	10,000
Sundry Creditors	95,000		
	1,75,000		1,75,000

The firm is dissolved on 31st March, 2019. Sundry assets realised @ 60 % of its book value. Realisation expenses ₹ 2,000 paid by Shweta. Nupur and Sanika both are insolvent. Nupur's private estate has got a surplus of ₹ 3,000 and that of Sanika ₹ 8,000. Show necessary Ledger Accounts to close the books of the firm.

Solution : **In the books of Shweta, Nupur and Sanika**

Dr. **Realisation Account** **Cr.**

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Sundry Assets A/c		1,60,000	By Sundry Liabilities A/c		95,000
To Bank A/c		95,000	(Sundry Creditors)		
Sundry Creditors			By Bank A/c		96,000
To Shweta's Capital A/c		2,000	Sundry Assets (60 %)		
(Realisation expense)			By Partners' Capital A/c		
			(Loss on Realisation		
			transferred)		
			Shweta	33,000	
			Nupur	22,000	
			Sanika	11,000	66,000
		2,57,000			2,57,000

Dr. **Partners' Capital Accounts** **Cr.**

Particulars	Shweta (₹)	Nupur (₹)	Sanika (₹)	Particulars	Shweta (₹)	Nupur (₹)	Sanika (₹)
To Balance b/d	–	–	10,000	By Balance b/d	65,000	15,000	–
To Realisation A/c – Loss	33,000	22,000	11,000	By Bank A/c	–	3,000	8,000
To Nupur's Capital A/c	4,000	–	–	(Private assets			
To Sanika's Capital A/c	13,000	–	–	surplus)			
To Bank A/c	17,000	–	–	By Shweta's Capital A/c	–	4,000	13,000
				(Deficiency)			
				By Realisation A/c	2,000	–	–
				(Realisation exp.)			
	67,000	22,000	21,000		67,000	22,000	21,000

Dr. **Bank Account** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	5,000	By Sundry Creditors A/c	95,000
To Nupur's Capital A/c	3,000	By Shweta's Capital A/c	17,000
To Sanika's Capital A/c	8,000		
To Realisation A/c (Assets)	96,000		
	1,12,000		1,12,000

Working Notes :

(1) From the private assets of Nupur and Sanika, ₹ 3,000 and ₹ 8,000 received and added to the capital accounts. The deficiency of ₹ 4,000 and ₹ 13,000 arrived. Shweta alone has to bear this deficiency.

(2) 60 % of Debtors realised i.e. 60 % of ₹ 1,60,000 = ₹ 96,000.

(When All Partners become Insolvent)

*** Q. 11. Following is the Balance Sheet as on 31st March, 2019 of a firm having three partners Priti, Priya and Prachi, sharing profit and losses in equal ratio :**

Balance Sheet as on 31st March, 2019

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital		Machinery	23,000
Priti	40,000	Furniture	16,000
Priya	35,000	Stock	47,000
Prachi	25,000	Cash at Bank	10,000
Trade Creditors	50,000	Profit and Loss Account	84,000
Loan (Secured by machinery)	30,000		
	1,80,000		1,80,000

The firm was dissolved due to insolvency of all the partners. Machinery was sold for ₹ 18,000, while Furniture fetched ₹ 14,000, Stock realised ₹ 35,000. Realisation expenses amounted to ₹ 2,000. Nothing could be recovered from Priya and Prachi, but ₹ 3,400 could be collected from Priti's private estate. Close the books of accounts of the firm.

Solution : **In the books of Priti, Priya and Prachi**

Dr. **Realisation Account** **Cr.**

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Sundry Assets A/c			By Bank A/c		
Machinery	23,000		Machinery	18,000	
Furniture	16,000		Furniture	14,000	
Stock	47,000	86,000	Stock	35,000	67,000
To Bank A/c		2,000	By Partnesrs' Capital A/c		
(Realisation Expense)			(Loss on Realisation		
			transferred)		
			Priti	7,000	
			Priya	7,000	
			Prachi	7,000	21,000
		88,000			88,000

Dr. **Partners' Capital Accounts** **Cr.**

Particulars	Priti (₹)	Priya (₹)	Prachi (₹)	Particulars	Priti (₹)	Priya (₹)	Prachi (₹)
To Profit and Loss A/c	28,000	28,000	28,000	By Balance b/d	40,000	35,000	25,000
To Realisation A/c – Loss	7,000	7,000	7,000	By Bank A/c (Asset)	3,400	–	–
To Deficiency A/c	8,400	–	–	By Deficiency A/c	–	–	10,000
	43,400	35,000	35,000		43,400	35,000	35,000

Dr. **Trade Creditors A/c** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Deficiency A/c	1,290	By Balance b/d	50,000
To Bank A/c	48,710		
	50,000		50,000

Dr. **Loan A/c** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Deficiency A/c	310	By Balance b/d	30,000
To Bank A/c	29,690		
	30,000		30,000

Dr. **Deficiency Account** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Prachi's Capital A/c	10,000	By Priti's Capital A/c	8,400
		By Trade Creditors A/c	1,290
		By Loan A/c	310
	10,000		10,000

Dr. **Bank Account** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	10,000	By Sundry Creditors A/c	48,710
To Priti's Capital A/c	3,400	By Realisation Expense A/c	2,000
To Realisation A/c (Assets)	67,000	By Loan A/c	29,690
	80,400		80,400

Working Notes :

(1) Amount paid to loan from sale of machinery = ₹ 18,000

Balance of Loan = 30,000 – 18,000 = ₹ 12,000

(2) Ratio of Trade creditors and Loan = 50,000 : 12,000 = 50 : 12 i.e. 25 : 6

(3) Balance of cash available = 10,000 + 67,000 + 3,400 – 18,000 – 2,000

= 80,400 – 20,000 = ₹ 60,400

Amount paid towards loan = $\frac{6}{31} \times \frac{60,400}{1}$ = ₹ 11,690

Amount paid to Trade creditors = $\frac{25}{31} \times 60,400$ = ₹ 48,710

Amount paid towards loan = 18,000 + 11,690 = ₹ 29,690.

*** Q. 12. Shashwat and Shiv are equal partners. Their Balance Sheet stood as under :**

Balance Sheet as on 31st March, 2019

Liabilities	Amount (₹)	Assets	Amount (₹)
Shaswat's Capital A/c	6,000	Plant and Machinery	14,750
Creditors	39,000	Furniture	4,000
		Debtors	5,000
		Stock	6,250
		Cash at Bank	3,000
		Shiv's Capital	12,000
	45,000		45,000

Due to weak financial position all partners were declared bankrupt.

The Assets were realised as follows :

Stock ₹ 3,500, Furniture ₹ 2,000, Debtors ₹ 5,000 and Machinery ₹ 7,000.

The cost of collection and distributing the estate amounted to ₹ 1,500. Shashwat's private estate is not sufficient even to pay his private debts, whereas in Shiv's private estate there is a surplus of ₹ 500.

Prepare necessary Ledger Accounts to close the books of the firm.

Solution : **In the books of Shashwat and Shiv**

Dr. **Realisation Account** **Cr.**

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Sundry Assets A/c			By Bank A/c		
Plant and Machinery	14,750		Stock	3,500	
Furniture	4,000		Furniture	2,000	
Debtors	5,000		Debtors	5,000	
Stock	6,250	30,000	Machinery	7,000	17,500
To Bank A/c		1,500	By Partners' Capital A/c		
Realisation Exp.			(Loss on Realisation		
			transferred)		
			Shashwat	7,000	
			Shiv	7,000	14,000
		31,500			31,500

Dr. **Partners' Capital Accounts** **Cr.**

Particulars	Shashwat (₹)	Shiv (₹)	Particulars	Shashwat (₹)	Shiv (₹)
To Balance b/d	–	12,000	By Balance b/d	6,000	–
To Realisation A/c – Loss	7,000	7,000	By Bank A/c	–	500
			By Deficiency A/c	1,000	18,500
	7,000	19,000		7,000	19,000

Dr. **Creditors Account** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Deficiency A/c	19,500	By Balance b/d	39,000
To Bank A/c	19,500		
	39,000		39,000

Dr. **Deficiency Account** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Shashwat's Capital A/c	1,000	By Creditors A/c	19,500
To Shiv's Capital A/c	18,500		
	19,500		19,500

Dr. **Bank Account** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	3,000	By Realisation Expense A/c	1,500
To Shiv's Capital A/c	500	By Creditors A/c	19,500
To Realisation A/c (Assets)	17,500		
	21,000		21,000

Working Note :

As partners were not able to pay their loss amount, difference of amount is considered as deficiency of partners.

PROBLEMS FOR PRACTICE

Q. 1. Parth and Zalak are partners sharing profits and losses equally. They decided to dissolve the firm on 31st March, 2020. The Balance Sheet was as follows :

Balance Sheet as on 31st March, 2020

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Creditors		55,750	Cash		13,750
Bills Payable		39,250	Debtors		22,500
Reserve Fund		18,750	Stock		32,500
Capital A/cs :			Bills Receivable		13,750
Parth	25,000		Building		52,500
Zalak	25,000	50,000	Furniture		28,750
		1,63,750			1,63,750

Assets were realised as :

Debtors ₹ 19,375, Stock ₹ 18,750, Bills Receivable ₹ 11,000. Buildings for ₹ 50,625. Parth agreed to take over furniture for ₹ 28,125. Realisation expenses were ₹ 4,375.

Pass the Journal Entries to close the books of the firm.

[**Ans.** (1) Loss on Realisation = ₹ 26,500. Division of Loss : Parth = ₹ 13,250 and Zalak = ₹ 13,250. (2) Amount received from Parth = ₹ 7,000 and Amount paid to Zalak = ₹ 21,125. (3) Cash A/c Total = ₹ 1,20,500.]

Q. 2. Kalpana, Bela and Yesha were partners sharing profits and losses in proportion of 2 : 2 : 1 respectively. Following is their Balance Sheet as on 31st March, 2019 :

Balance Sheet as on 31st March, 2019

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital A/cs :			Machinery		12,500
Kalpana	15,000		Stock		10,000
Bela	7,500		Debtors	13,750	
Yesha	7,500	30,000	Less : R.D.D.	750	13,000
General Reserve		1,500	Investments		6,000
Creditors		10,000	Bank		5,500
Kalpana's Loan		2,000			
Bills Payable		3,500			
		47,000			47,000

On the above date partners decided to dissolve the firm :

(1) Assets were realised : Machinery ₹ 11,500; Stock ₹ 4,500; Debtors ₹ 11,000; Investments ₹ 5,250 and Goodwill ₹ 6,000.

(2) Dissolution expenses were ₹ 750.

Pass the Journal Entries in the books of the firm.

[**Ans.** (1) Loss on Realisation = ₹ 4,000. Adjustment of Loss : Kalpana = ₹ 1,600; Bela = ₹ 1,600 and Yesha ₹ 800. (2) Amount paid in final settlement to Kalpana = ₹ 14,000, Bela = ₹ 6,500 and Yesha = ₹ 7,000. (3) Bank A/c Total = ₹ 43,750.]

[**Hint :**

Kalpana's Loan A/c is to be opened separately by transferring the balance of ₹ 4,000 on credit side of her Loan A/c. In the absence of information Kalpana's Loan is to be paid in full.]

Q. 3. Harsin, Nayan and Sagar were partners in a firm sharing profits and losses in the ratio of 3 : 2 : 1 respectively. Their Balance Sheet as on 31st March, 2020 was as follows :

Balance Sheet as on 31st March, 2020

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Creditors		40,800	Goodwill		15,000
Bills Payable		29,400	Building		75,000
General Reserve		21,600	Machinery		66,000
Capital A/cs :			Stock		16,800
Harsin	95,100		Debtors	12,000	
Nayan	69,000		Less : R.D.D.	900	11,100
Sagar	26,100	1,90,200	Furniture		25,200
			Cash at Bank		12,900
			Cash in Hand		18,600
			Profit and Loss A/c		41,400
		2,82,000			2,82,000

On the above date, they decided to dissolve the firm :

(1) Assets realised as : Building – ₹ 58,800; Machinery – ₹ 57,000; Stock – ₹ 10,500; Debtors – ₹ 7,200.

(2) Harsin took over the Furniture at ₹ 18,300.

(3) The creditors were paid off at ₹ 39,600 in full settlement.

(4) Bills payable were paid in full and outstanding rent ₹ 12,600.

(5) Dissolution expenses incurred ₹ 3,120.

Prepare : (1) Realisation A/c; (2) Partners' Capital A/cs; (3) Bank A/c.

[**Ans.** (1) Loss on Realisation = ₹ 71,820; Division of Loss : Harsin = ₹ 35,910; Nayan = ₹ 23,940 and Sagar = ₹ 11,970. (2) Amount paid in final settlement to Harsin = ₹ 30,990; Nayan = ₹ 38,460 and Sagar = ₹ 10,830. (3) Bank A/c Total = ₹ 1,65,000.]

[**Hint :**

Goodwill is an intangible asset of the firm. In the absence of information, it is presumed that nothing is realised from Goodwill.]

Q. 4. The following is the Balance Sheet of Rakesh and Mehul as at 31st March, 2020 :

Balance Sheet as on 31st March, 2020

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capitals :			Goodwill		82,000
Rakesh	48,000		Land and Building		1,86,000
Mehul	25,000	73,000	Patents		23,200
General Reserve		62,000	Stock		45,000
Mehul's Loan A/c		82,000	Debtors	43,800	
Creditors		1,23,000	Less : R.D.D.	200	43,600
Bills Payable		81,000	Bank		41,200
		4,21,000			4,21,000

On 1st April, 2020, the firm was dissolved. Mehul took over Patents at a value of ₹ 16,000.

The other assets realised as under : (a) Goodwill ₹ 40,000; Land and Building ₹ 1,80,000; Stock ₹ 40,000 and Debtors ₹ 38,000. (b) Creditors were paid off at a discount of 10 % and other liabilities were paid in full. (c) Expenses for realisation amounted to ₹ 5,000.

Prepare : Realisation A/c; Partners' Capital A/cs and Bank A/c.

[**Ans.** (1) Loss on Realisation = ₹ 58,500. Division of Loss : Rakesh = ₹ 29,250 and Mehul = ₹ 29,250. (2) Amount payable to Rakesh : ₹ 49,750 and Mehul : ₹ 10,750. (3) Bank A/c Total = ₹ 3,39,200.]

[**Hint :**

Mehul's Loan A/c is to be opened separately by transferring the balance of ₹ 82,000 on credit side of his Loan A/c. In the absence of information Mehul's loan is to be paid in full.]

Q. 5. Jay, Ajay and Vijay were partners sharing profits and losses in the proportion of 2 : 2 : 1. Following is their Balance Sheet as on 31st March, 2020.

Balance Sheet as on 31st March, 2020

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital A/cs :			Machinery		40,000
Jay	48,000		Stock		16,000
Ajay	16,000		Debtors	44,000	
Vijay	16,000	80,000	Less : R.D.D.	2,400	41,600
General Reserve		4,800	Investments		19,200
Creditors		32,000	Profit and Loss A/c		14,400
Jay's Loan A/c		6,400	Bank		3,200
Bills Payable		11,200			
		1,34,400			1,34,400

On the above date the partners decided to dissolve the firm.

(1) Assets were realised as : Machinery ₹ 36,000, Stock ₹ 14,400, Investment ₹ 16,800 and Debtors ₹ 36,000.

(2) Dissolution expenses were ₹ 2,400.

(3) Goodwill of the firm realised ₹ 19,200.

Prepare : (1) Realisation account (2) Partners' Capital accounts (3) Bank account.

[**Ans.** (1) Profit on Realisation = ₹ 3,200, Division of Profit : Jay = ₹ 1,280, Ajay = ₹ 1,280 and Vijay = ₹ 640. (2) Amount paid in final settlement : Jay = ₹ 45,440, Ajay = ₹ 13,440 and Vijay = ₹ 14,720. (3) Bank A/c Total = ₹ 1,25,600.]

[**Hints :**

(1) Since Jay is a partner, Jay's Loan A/c balance should not be transferred to Realisation A/c. Jay's Loan A/c is to be opened separately. After the payment of Jay's loan, Bank A/c is to be credited and his Loan A/c is to be closed. (2) For realisation of Goodwill in cash ₹ 19,200, Bank is to be debited and Realisation A/c is to be credited.]

Q. 6. The following is the Balance Sheet of Shah and Patel as on 31st March, 2020.

Balance Sheet as on 31st March, 2020

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital A/cs :			Goodwill		42,000
Shah	1,00,000		Land and Building		1,66,000
Patel	81,000	1,81,000	Patents		41,200
Profit and Loss A/c		32,000	Stock		35,000
Mrs Shah's Loan		42,000	Debtors		33,600
Creditors		63,000	Bank		41,200
Bills Payable		41,000			
		3,59,000			3,59,000

On 1st April, 2020, the firm was dissolved :

(1) Shah took over patents at ₹ 21,000.

(2) Assets realised as – Land and Building ₹ 1,67,000, Stock ₹ 24,000 and Debtors at book value.

(3) Creditors were paid at ₹ 62,700 in full settlement and other liabilities were paid in full.

(4) Realisation expenses amounted to ₹ 3,500.

Prepare : Realisation A/cs, Capital A/cs and Bank A/c to close the books of the firm.

[**Ans.** (1) Loss on Realisation = ₹ 75,400. Division of Loss : Shah = ₹ 37,700 and Patel = ₹ 37,700. (2) Amount paid in final settlement to Shah = ₹ 57,300 and Patel = ₹ 59,300. (3) Bank A/c Total = ₹ 2,65,800.]

Q. 7. Amit and Anand were partners sharing profits and losses in the ratio of 3 : 2. Their Balance Sheet on 31st March, 2020 was as follows :

Balance Sheet as on 31st March, 2020

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital A/cs :			Bank		83,000
Amit	95,000		Stock		42,500
Anand	1,03,000	1,98,000	Debtors		37,000
Current A/cs :			Plant		94,500
Amit	41,500		Building		1,43,500
Anand	41,000	82,500			
Creditors		78,700			
Bills Payable		41,300			
		4,00,500			4,00,500

The firm was dissolved on the above date and the assets realised as under :

(1) Stock ₹ 32,000, Debtors ₹ 26,000, Plant ₹ 84,000 and Building ₹ 93,000.

(2) Amit agreed to pay off the bills payable.

(3) Creditors were paid in full.

(4) Dissolution expenses were ₹ 3,500.

Prepare : Realisation A/c, Current A/cs and Capital A/cs, Bank A/c.

[**Ans.** (1) Loss on Realisation = ₹ 86,000, Division of Loss : Amit = ₹ 51,600 and Anand = ₹ 34,400, (2) Current A/c (credit balance) of Amit transferred to Amit's Capital A/c = ₹ 31,200, Current A/c (credit balance) of Anand transferred to Anand's Capital A/c = ₹ 6,600. (3) Amount finally paid to Amit = ₹ 1,26,200 and Anand : ₹ 1,09,600. (4) Bank A/c Total = ₹ 3,18,000.]

Q. 8. Karma and Dharma were partners sharing profits and losses in the ratio of 3 : 2. Their Balance Sheet on 31st March, 2020 was as follows :

Balance Sheet as on 31st March, 2020

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Creditors		29,000	Bank		15,500
Bills Payable		22,500	Stock		25,500
Capital A/cs :			Building		85,000
Karma	80,000		Plant		40,000
Dharma	45,000	1,25,000	Debtors		23,500
Current A/cs :			Profit and Loss A/c		18,000
Karma	11,800				
Dharma	11,200	23,000			
General Reserve		8,000			
		2,07,500			2,07,500

The firm was dissolved on the above date and the assets were realised as under :

(1) Stock ₹ 25,000; Debtors ₹ 22,500; Plant ₹ 38,000 and Building ₹ 1,20,000. (2) Karma agreed to pay off Bills payable. (3) Creditors were paid off ₹ 28,000. (4) Dissolution expenses were ₹ 1,500.

Prepare : Realisation A/c, Current A/cs and Capital A/cs of the Partners, Bank A/c.

[**Ans.** (1) Profit on Realisation = ₹ 31,000. Division of Profit : Karma = ₹ 18,600 and Dharma = ₹ 12,400. (2) Current A/c (credit balance) transferred to Capital A/c : Karma = ₹ 46,900 and Dharma = ₹ 19,600. (3) Amount finally payable to Karma = ₹ 1,26,900 and Dharma = ₹ 64,600. (4) Bank A/c Total = ₹ 2,21,000.]

Q. 9. The following is the Balance Sheet of A, B and C who share profits and losses equally.

Balance Sheet as on 31st March, 2020

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital A/cs :			Bank		10,000
A	50,000		Stock		30,000
B	30,000	80,000	Machinery		50,000
Reserve Fund		18,000	Debtors		20,000
Creditors		40,000	Bills Receivable		18,000
			C's Capital		10,000
		1,38,000			1,38,000

They decided to dissolve the firm and assets realised as follows :

(1) Stock ₹ 20,000; Machinery ₹ 30,000; Debtors ₹ 16,000 and Bills receivable to ₹ 14,200.

(2) Creditors were paid at a discount of 2 %. Realisation expenses were paid ₹ 5,000.

(3) C became insolvent and the partners could recover only ₹ 5,000 from his private property.

Prepare : Realisation A/c, Bank A/c, Partners' Capital A/cs.

[**Ans.** (1) Loss on Realisation = ₹ 42,000, Division of Loss : A = ₹ 14,000, B = ₹ 14,000 and C = ₹ 14,000. (2) C's Capital deficiency = ₹ 13,000, borne equally by A and B, i.e. ₹ 6,500 each; Amount paid to A = ₹ 35,500; B = ₹ 15,500. (3) Bank A/c Total = ₹ 95,200.]

Q. 10. Vipul, Hiren and Purvi were partners in a partnership. They were sharing profits and losses in the ratio 2 : 2 : 1 respectively. Their Balance Sheet was as follows :

Balance Sheet as on 31st March, 2020

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Sundry Creditors		20,000	Cash in Hand		10,000
Bills Payable		5,000	Debtors	20,000	
Bank Overdraft		15,000	Less : R.D.D.	2,000	18,000
Vipul's Loan		8,000	Stock		12,000
General Reserve		10,000	Machinery		30,000
Capital A/cs :			Furniture		2,000
Vipul	50,000		Building		80,000
Hiren	50,000	1,00,000	Purvi's Capital		6,000
		1,58,000			1,58,000

On 1st April 2020, they decided to dissolve the partnership :

(1) Assets were realised as Debtors ₹ 10,000, Stock ₹ 10,000, Machinery ₹ 25,000 and Furniture ₹ 1,000. Building was sold at 112.5 % of its book value.

(2) Dissolution expenses amounted to ₹ 4,000. Sundry creditors and Bills payable were fully paid.

(3) Purvi became insolvent and nothing could be recovered from her private estate.

Prepare : Realisation A/c, Capital A/cs of Partners and Bank A/c.

[**Ans.** (1) Loss on Realisation = ₹ 10,000, Division of Loss : Vipul = ₹ 4,000, Hiren = ₹ 4,000 and Purvi = ₹ 2,000. (2) Capital deficiency of Purvi ₹ 6,000 borne equally by Vipul and Hiren i.e. ₹ 3,000 each. (3) Amount paid to Vipul = ₹ 47,000 and Hiren = ₹ 47,000. (4) Cash A/c total = ₹ 1,46,000.]

[**Hint :**

Value at which buildings sold = 112.5 % of book value = 112.5 % of 80,000 = ₹ 90,000.]

(When All Partners are Insolvent)

Q. 11. Asha and Usha are partners sharing profits and losses equally. They decided to dissolve the firm on 31st March, 2019. Their Balance Sheet was as follows :

Balance Sheet as on 31st March, 2019

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Creditors		9,600	Cash		6,000
Bills Payable		6,400	Debtors		8,000
Bank Overdraft		19,200	Stock		6,000
Capital A/cs :			Bills Receivable		6,000
Asha	13,800		Buildings		22,000
Usha	11,500	25,300	Furniture		8,000
			Profit and Loss A/c		4,500
		60,500			60,500

Assets were realised as follows :

Debtors ₹ 5,000. Stock ₹ 3,000, Bills receivable ₹ 3,500, Buildings ₹ 10,000, Furniture ₹ 4,000, Realisation expenses ₹ 1,000. Both Asha and Usha became insolvent. Nothing could be recovered from the estate of Usha and Asha could pay only ₹ 300 from his private estate.

Prepare relevant Ledger Accounts to close the books of the firm.

[**Ans.** (1) Loss on Realisation = ₹ 25,500, Division of Loss : Asha = ₹ 12,750 and Usha = ₹ 12,750. (2) Capital deficiency of Asha = ₹ 900 and Usha = ₹ 3,500. (3) Deficiency borne by creditors = ₹ 1,200; by creditors for Bills payable = ₹ 800 and by bank for overdraft = ₹ 2,400 in the ratio of 3 : 2 : 6. (Ratio of creditors, B.P. and Bank O/D amounts) (4) Cash A/c Total = ₹ 31,800.]

Q. 12. Het, Heet and Himesh were carrying on business in partnership. The profit sharing proportion was 5 : 3 : 2 respectively. Their Balance Sheet as on 31st March, 2019 was as follows :

Balance Sheet as on 31st March, 2019

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Sundry Creditors		40,500	Plant and Machinery		47,500
Heet's Loan		24,500	Investments		12,800
Bills Payable		27,000	Stock		28,000
Bank Overdraft		54,000	Sundry Debtors	18,000	
Capital A/cs :			Less : Provision	1,000	17,000
Het	26,750		Goodwill		25,300
Heet	10,000		Cash		23,900
Himesh	16,750	53,500	Profit and Loss A/c		45,000
		1,99,500			1,99,500

On this date the firm was dissolved and the assets realised as follows :

Plant and Machinery having become obsolete, could realise only ₹ 10,000, Investments realised ₹ 8,000, Stock sold for ₹ 10,000. Goodwill realised nothing. Only 50 % of Debtors could pay their dues in full and remaining turned out as bad. Expenses of realisation incurred ₹ 2,400. All partners became insolvent. Partnership firm could recover only ₹ 1,000 from Himesh's estate. Het could pay ₹ 10,000 and Heet ₹ 4,000 from their respective private properties.

Close the books of the firm by preparing relevant Ledger Accounts.

[**Ans.** (1) Loss on Realisation = ₹ 96,000, Division of Loss : Het = ₹ 48,000; Heet = ₹ 28,800 and Himesh = ₹ 19,200. (2) Capital deficiency of Het = ₹ 33,750; Heet = ₹ 3,800 and Himesh = ₹ 10,450. (3) Deficiency suffered by creditors = ₹ 16,000, by Bank overdraft = ₹ 21,333 and by creditors for Bills payable = ₹ 10,667. (4) Cash A/c Total = ₹ 75,900. Ratio of Sundry creditors, Bills payable and Bank overdraft for payment of cash is 3 : 2 : 4 respectively.]

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7

BILLS OF EXCHANGE

SYLLABUS

7.1 Introduction, Necessity, Meaning, Definition of Bills of Exchange.

7.2 Draft, Format of Bills of Exchange, Parties to the Bills of Exchange, Acceptance of Bill, Terms of Bill, Days of Grace, Date of Maturity, Due Date, Types of Bill.

7.3 How using of Bill, Dishonour of Bill, Noting and Protesting of Bill, Notary Public and Noting Charges.

7.4 Accounting Treatment of Bill by the Drawer / Holder and Drawee in the following cases :
- (a) Retaining the bill till due date : honour, dishonour, insolvency of the drawee/acceptor.
- (b) Endorsement of bill : honour, dishonour, insolvency of the drawee/acceptor.
- (c) Discounting the bill with the bank : honour, dishonour, insolvency of the drawee/acceptor.
- (d) Sending the bill to the Bank for collection : honour, dishonour, insolvency of the drawee/acceptor.
- (e) Renewal of bill of exchange : Reasons for Renewal; Renewal of bill with or without charging interest.
- (f) Making part payment of the basic amount, interest and noting charges and drawing of new bill.
- (g) Honour / Dishonour of new bill
- (h) Insolvency of the acceptor and settlement of his account.
- (i) Retirement of bill.
- (j) Journal entries and Ledger (Only Drawer's A/c / Drawee's A/c).

(A) BRIEF OVERVIEW

7.1 Introduction : When goods are sold on credit, there is an implied promise by the buyer to pay money to the seller on a future date. Similarly, in the case of borrowing or lending of money, borrower/debtor borrows money on oral or implied promise. Such credit sales or lending of money involves risk of recovery of debts in time. In spite of repeated reminders, some borrowers/debtors do not fulfil their promises. So in the interest of seller or creditor, the party to the credit transaction prepares a written document or undertaking giving the details of debts such as person liable to pay debts, person entitled to receive the payment, amount of debts, date of payments, signatures of the parties to the transaction, etc. This written document or undertaking is called **Credit Document** or **Negotiable Instrument.** Bill of Exchange is one of the important credit instruments used to support credit transactions. In India, in ancient days, instrument of credit popularly known as **Hundies** were used on large extent. Bills of exchange if drafted in any one of the Indian languages such as Marathi, Gujarati, Urdu, Hindi, etc., is called Hundi. Hundies are classified into different types like Shahjog Hundi, Darshani Hundi, Muddati or Miadi Hundi, Namjog Hundi, Dhani-Jog Hundi, Jawabee Hundi, Hukhami Hundi, Firman-Jog Hundi, etc.

Necessity : The necessity of Bills of Exchange is summarised as follows :

(1) In the Bills of Exchange the debtor gives acknowledgement of the debts which automatically creates evidence of debts.

(2) The seller or creditor is relieved from the tension or risk of recovery of the amount or debts.

(3) The seller or creditor comes to know the exact date of receiving the payment of the bill.

(4) It is a valuable document which can be discounted with the bank to raise needed finance.

(5) It can be used or endorsed by its owner in settlement of the debts owed by him / her.

Meaning and definition : Bill of Exchange is a written acknowledgement of debt given by the debtor to the creditor along with a written promise to pay that debt on demand or after a specified period to the creditor or any other person as per his order. Usually bill of exchange is drawn by the creditor on his debtor. It is accepted by debtor.

According to the Negotiable Instruments Act, 1881, Bill of Exchange is defined as, "*an instrument in writing containing an unconditional order signed by the maker, directing a certain person to pay on demand, or on a certain future date, or after a certain period of time, a certain sum of money only to. or to the order of a certain person or to the bearer of the instrument.*"

Salient features of a Bill of Exchange :

(1) A bill of exchange must be in writing.

(2) A stamp of proper value must be affixed on it as per the provisions of Stamp Duty Act, 1889.

(3) It must be dated.

(4) It should contain an unconditional order to pay certain sum of money only.

(5) Such order is given to make payment of certain or definite sum of money only.

(6) The order is to make payment to a certain person whose name is specified in it or to his order or the bearer.

(7) The maker of the bill signs the bill of exchange.

(8) It must be accepted by the drawee i.e. the person on whom it is drawn.

(9) It must clearly specify when payment is to be made.

7.2 Draft, Format of Bills of Exchange : There are three parties to a bill of exchange viz., the drawer, the drawee and the payee.

(1) Drawer : The person who draws or prepares the bill, gives the order to pay money and signs on it is called **Drawer.** He is a creditor. He has to receive the amount specified on the bill. Accordingly drawer records all transactions relating to bills under the title or name called "Bill Receivable".

(2) Drawee : The person on whom the bill is drawn is called **Drawee.** Every bill drawn by the drawer is required to be accepted by the drawee. When drawee accepts the bill or agrees to make the payment, he becomes the **Acceptor**. Since, the amount of bill is payable on due date by drawee and hence for him it is "Bill Payable".

(3) Payee : The person named in the instrument, to whom the amount of the bill is to be paid is called the **Payee**. Generally, drawer is the payee, but payee could also be a third person like a creditor to whom the amount is made payable by drawer.

Contents of format of Bill of Exchange :

(1) Date : At the top right-hand corner below the address of the drawer, date on which bill is drawn is to be written, which is required to calculate maturity date.

(2) Term : Term of bill must be mentioned in months or in days.

(3) **Amount :** Below the stamp, amount of bill in figure should be mentioned and amount of bill in words are written in the body of bill.

(4) **Stamp :** Appropriate value of stamp should be affixed as per Indian Stamp Act 1889.

(5) **Parties :** In the bill of exchange names of drawer, drawee and payee and their address must be mentioned.

(6) **For value received :** The bill of exchange should be issued in exchange of some benefit received which is legally necessary.

(7) **Acceptance :** At per mutual understanding, drawer makes a draft for bills of exchange and sent it to drawee for acceptance. Drawee then signs that draft with his name along with date across the face of the bill with the words 'Accepted'. On acceptance by drawee, that 'draft' becomes bill of exchange.

- **Pro Forma of a Bill of Exchange :**

BILL OF EXCHANGE

STAMP

(Drawer's Name)

(Drawer's Address)

(Date of bill drawn)

₹ ------------------------/–
(Amount in figures)

---------------------------- after date, pay to --
(Period of bill) (Name of Payee and Payee's address)

-- or his / her order, the sum of Rupees

(Amount in words)

only for the value received.

To

(Drawee's Name)

(Drawee's Address)

Accepted
Sd. /–
(Drawee's name)
(Date of acceptance)

Sd. /–

(Drawer's Name)

Acceptance of Bill of Exchange : Acceptance of a bill of exchange means signing the bill of exchange by drawee to give his assent to pay the amount of the bill. Unless the bill is accepted by drawee, he is not liable to pay an amount of the bill. A bill of exchange before its acceptance is called a **Draft.**

Types of Acceptance : Acceptance of bill of exchange can be of two types viz., (1) Unconditional or General Acceptance and (2) Conditional or Qualified Acceptance.

(1) **General Acceptance :** If the drawee accepts the bill without putting any condition or making any change in the original terms of the bill, such an acceptance is known as **Unconditional** or **General Acceptance.**

(2) Qualified Acceptance : If the drawee accepts the bill by making certain changes in the original terms regarding the time, amount of payment or place of payment, the acceptance is said to be **Conditional** or **Qualified Acceptance.**

A qualified or conditional acceptance may be of five types. They are explained below :

(a) **Qualified as to Time :** When drawee accepts the bill by making changes in the period of the bill, it is called Qualified as to Time.

(b) **Qualified as to Place :** When drawee is not ready to make payment at the place mentioned in the bill and suggests a different place where he is willing to pay the amount of the bill, it is called Qualified acceptance as to Place.

(c) **Qualified as to Amount :** When drawee accepts the bill not for entire amount specified on the bill but for part of the amount of the bill, it is called Qualified acceptance as to Amount.

(d) **Qualified as to Parties :** When drawee is not ready to pay the amount of bill to the payee as mentioned in the bill, it is called Qualified acceptance as to Parties.

(e) **Qualified as to Condition :** When drawee accepts the bill by putting his own conditions, it is called Qualified as to Condition.

Promisory Note : Promisory note is one of the negotiable instrument payable either to order to bearer.

Parties to a Promisory Note :

(a) **Drawer :** A person who draws a promisory note, promises to pay a certain amount as specified in the promissory note is known as **Drawer** or **Maker** of the promissory note. Drawer is also known as the **Promiser.**

(b) **Drawee :** A person in whose favour the promissory note is drawn is known as **Drawee** or **Payee** of the promissory note. Drawee is also known as **Promisee.**

Specimen of Promisory Note :

Promisory Note

STAMP

-- (Drawer's Name)

-- (Drawer's Address)

-- (Date of Promisory note drawn)

₹ ------------------------/–
(Amount in figures)

------------------ after date, I promise to pay Mr / Ms --
(Period) (Name and address of drawee)

or his / her order, the sum of Rupees --
(Amount in words)

only for the value received.

Sd. / –

(Drawee's Name)

(Drawer's Name)

(Drawee's Address)

Example : Prepare a specimen of a Bill of Exchange from the following details :

(1) Drawer : Mrs Archana Patil, Vikram Nagar, Patan.
(2) Drawee : Mrs Nalini Maniyar, Jalaram Krupa, Mul
(3) Payee : Mrs Sheela Ghatkar, Mangal Yog, CIDCO, Aurangabad
(4) Amount : ₹ 17,575 (5) Period : 60 days
(6) Date of bill : 28th December, 2019 (7) Accepted on : 2nd January, 2020
(8) Accepted for : 90 days.

Solution :

BILL OF EXCHANGE

STAMP

₹ 17,575 / –

Mrs Archana Patil,
Vikram Nagar, Patan.
Date : 28th December, 2019

Sixty days after date, pay to Mrs Sheela Ghatkar, Mangal Yog, CIDCO, Aurangabad, or her order, the sum of Rupees Seventeen Thousand Five Hundred Seventy Five only for value received.

To,
Mrs Nalini Maniyar,
Jalaram Krupa,
Mul.

'Accepted for 90 days
only'
Sd. / –
(Mrs Nalini Maniyar)
Date : 2nd January, 2020

Sd. / –
(Mrs Archana Patil)

Terms of Bills of Exchange :

Tenor or Term : Tenor or **Term** of the bill of exchange refers to a period or duration for which bill of exchange is drawn. It is the period of the bill after which it becomes payable. It may be in number of months or in number of days. If the bill of exchange is drawn for 90 days, the term of the bill of exchange in that case is 90 days.

Draft : A bill which is prepared by drawer and not yet accepted by drawee, then it is called Draft.

Days of Grace : Days of grace refer to three extra days allowed by law to the drawee over and above the period of the bill to enable him to make payment. Legal due date is calculated by adding days of grace to the period of the bill. However, grace days are not allowed for the bill payable on 'Demand' or 'At sight'.

Date of Maturity / Due Date of a Bill : The date of maturity or the due date of a bill is the date on which the amount of the bill is to be paid. In the case of a bills made payable, a specified period after date or after sight, the law allows three days of grace in addition to the period specified in the bill.

Formulae to calculate the due dates are given below :

(i) If the bill is payable **'on Demand'** or **'At sight'**, its due date is that date on which it is presented to the drawee for payment. It does not have definite period of time and grace days are not allowed for this type of bill.

(ii) If the bill is drawn **'After date'**

Due Date = Date of bill drawn + Period of the bill + 3 days of grace.

Period of the bill may be in number of months or in number of days.

(iii) If the bill is drawn **'After sight'**

Due Date = Date of bill accepted or date of bill presented for acceptance + Period of the bill + 3 days of grace.

Types of Due Date :

(a) Nominal Due Date : The date on which the term i.e. the period of a bill of exchange gets expired is called Nominal due date. It is calculated without adding days of grace to the period of the bill.

∴ Nominal due date = Date of bill drawn / accepted + Period of the bill.

(b) Legal Due Date : Legal due date is that date which is arrived at after adding 3 days of grace in nominal due date.

∴ Legal due date = Nominal due date + 3 days of grace.

If the due date falls on public holiday or Sunday, the payment of the bill is required to be made on immediate preceding working day, e.g. if the due date falls on 15th August, payment must be made on 14th August. Similarly if the due date falls on 26th January, payment must be made on 25th January. According to the provisions made in the Negotiable Instruments Act, 1881, if in emergency, the Government of India declares a particular date as holiday, then all bills fall due for payment on that date will be paid on very next working date.

However, if due date of a bill falls due on 7th July, 2020 and this day, the Government of India declared emergency public holiday due to heavy rain and flood, then that bill would be paid on 8th July, 2020 provided it is not Sunday.

Examples : (1) Calculate legal due dates from the following bills :

Sr. No.	Date of Bill	Period
1.	28 – 1 – 2020	1 month
2.	29 – 1 – 2020	1 month
3.	30 – 1 – 2020	1 month
4.	31 – 1 – 2020	1 month
5.	10 – 1 – 2020	20 days
6.	19 – 1 – 2020	60 days

Sr. No.	Date of Bill	Period
7.	12 – 6 – 2019	90 days
8.	31 – 12 – 2019	120 days
9.	31 – 1 – 2019	30 days
10.	31 – 1 – 2019	30 days
11.	23 – 11 – 2019	2 months
12.	12 – 5 – 2020	3 months

Solution :

Sr. No.	Working	Nominal Due Date	Grace Days	Legal Due Date
1.	28 – 1 – 2020 + 1 month	28 – 2 – 2020	+ 3 days	3 – 3 – 2020
2.	29 – 1 – 2020 + 1 month	28 – 2 – 2020	+ 3 days	3 – 3 – 2020
3.	30 – 1 – 2020 + 1 month	28 – 2 – 2020	+ 3 days	3 – 3 – 2020
4.	31 – 1 – 2020 + 1 month	28 – 2 – 2020	+ 3 days	3 – 3 – 2020
5.	10 – 1 – 2020 + 20 days i.e., 20 days of Jan.	30 – 1 – 2020	+ 3 days	2 – 2 – 2020
6.	19 – 1 – 2020 + 60 days i.e., 12 days of Jan. + 28 days of Feb. + 20 days of March	20 – 3 – 2020	+ 3 days	23 – 3 – 2020

Sr. No.	Working	Nominal Due Date	Grace Days	Legal Due Date
7.	12 – 6 – 2020 + 90 days i.e., 18 days of June + 31 days of July + 31 days of August + 10 days of Sept.	10 – 9 – 2020	+ 3 days	13 – 9 – 2020
8.	31 – 12 – 2019 + 120 days i.e., 31 days of Jan. 2020 + 28 days of Feb. + 31 days of March + 30 days of April	30 – 4 – 2020	+ 3 days	3 – 5 – 2020
9.	31 – 1 – 2020 + 30 days i.e., 28 days of Feb. 2020 + 2 day of March	2 – 3 – 2020	+ 3 days	5 – 3 – 2020
10.	31 – 1 – 2019 + 30 days i.e., 28 days of Feb. 2019 + 2 days of March	2 – 3 – 2019	+ 3 days	5 – 3 – 2019
11.	23 – 11 – 2019 + 2 months	23 – 1 – 2020	+ 3 days	25 – 1 – 2020*
12.	12 – 5 – 2020 + 3 months	12 – 8 – 2020	+ 3 days	14 – 8 – 2020*

** Since 26th January, 2020 and 15th August, 2020 are public holidays, payment on the last two bills must be made on 25 – 1 – 2020 and 14 – 8 – 2020 respectively.*

(2) Calculate legal due dates for the following bills :

Sr. No.	Date of Bill	Period of Bill	Types	Date of Presentation	Date of Acceptance
1.	4 – 01 – 20	3 months	After date	5 – 01 – 20	6 – 01 – 20
2.	7 – 02 – 20	60 days	After date	8 – 02 – 20	9 – 02 – 20
3.	10 – 05 – 20	3 months	After sight	12 – 05 – 20	12 – 05 – 20
4.	22 – 09 – 20	4 months	After sight	23 – 09 – 20	24 – 09 – 20

Solution :

Sr. No.	Working				Nominal Due Date	Grace Days	Legal Due Date
1.	**After date**	**DD**	**MM**	**YYYY**			
	Date of bill + Period	04 –	01 03	2020 –			
	Nominal due date	04	04	2020	4 – 04 – 20	03	07 – 04 – 20
2.	**After date**	**Month**	**Normal days**	**Unexpired days**			
	Date of bill	Feb.	29	29 – 7 = 22			
		March	31	31			
		April	30	7	7 – 04 – 20	03	10 – 04 – 20
				60			
3.	**After Sight**	**DD**	**MM**	**YYYY**			15th August 2012 is a public holiday
	Date of presentation + Period	12 –	05 03	2019 –			
	Nominal due date	12	08	2019	12 – 08 – 19	03	14 – 08 – 19

Sr. No.	Working				Nominal Due Date	Grace Days	Legal Due Date
4.	**After Sight**	**DD**	**MM**	**YYYY**			26th Jan. 2020 is a public holiday
	Date of presentation + Period	23 –	09 04	2019 –			
	Nominal due date	23	01	2020	23 – 01 – 20	03	25 – 01 – 2020

Note : In case of Bills Payable after sight, the period of the bill is to be counted from the date of acceptance or date of presentation whichever is earlier.

Holder : Any person who is entitled in his own name to the possession of the bill and to receive or recover the amount due thereon from the concerned parties thereon is called "holder of the bill". He may be drawer himself or his creditor in favour of whom drawer has endorsed the bill. Somebody in possession of a stolen or a lost instrument i.e., bills of exchange cannot be a holder. The payee of the bill can be a holder. Any person who has received the instrument from the payee or any previous holder can be a holder.

Holder in due course : A person is said to be "holder in due course" if he satisfies the following conditions :

(i) He is a holder if it is payable to bearer or he is the payee or endorsee, if it is payble to or to the order of the payee.

(ii) He became the holder before the amount mentioned in the instrument became payable i.e. before maturity.

(iii) He became the holder for valid consideration.

(iv) He became the holder without having sufficient cause to believe that any defect existed in the title of the person from whom he received it, though not of any prior party.

Types of Bills of Exchange : The bills of exchange may be classified as :

(1) Trade bill : A bill of exchange which is drawn by a creditor on his debtor for certain valuable consideration is called Trade bill. Only in case of credit and lending and borrowing, transactions Trade bills are used. The different types of trade bills are explained below :

(i) **Inland bill of exchange :** A bill of exchange drawn and accepted between the two parties from the same country is called Inland bill of exchange, e.g. a bill of exchange drawn and accepted at Mumbai and made payable at Kolkata, is known as Inland bill of exchange.

(ii) **Foreign bill of exchange :** A bill of exchange drawn and accepted in one country and made payable in some other country is called a Foreign bill of exchange, e.g. a bill of exchange drawn in India and made payable in Japan is called a Foreign bill of exchange.

(iii) **Bills Payable on Demand or at Sight :** A bill of exchange which does not have definite period of time and made payable whenever its payment is demanded, is called bill payable on Demand or at Sight. Grace period of 3 days is not allowed on these bills.

(iv) **Bills Payable After Date :** A bill of exchange in which period of bill is counted from the date of bill drawn, is called Bills Payable after Date. Grace period of 3 days is allowed on these bills.

(v) **Bills Payable After Sight :** A bill of exchange in which period of a bill is counted from the date of presentation or date of acceptance whichever is earlier is called Bill Payable after Sight. Grace period of 3 days is allowed on these bills.

(2) Accommodation bill : A bill drawn not against value received, but to raise money on credit and thus meet the temporary financial needs of the parties thereto, is called Accommodation bill. In order to help a friend and for mutual benefits of the parties thereto, this type of bill is drafted and accepted without any consideration.

Classification of bills for Accounting : The two fundamental accounting rules for recording bill transactions are : first, to remember that for the acceptor or drawee, a bill is always a **Bills payable** as he is required to make payment, while for all other parties, it is a **Bill receivable**; and secondly, to treat both the **Bills Receivable** A/c and the **Bills Payable** A/c as Real accounts, debiting what comes in and crediting what goes out.

Thus, on accepting a bill of exchange, the acceptor will debit the Drawer's A/c and credit the Bills Payable A/c, and on receipt of this acceptance, the drawer will debit the Bills Receivable A/c and credit the Acceptor's or Drawee's A/c.

7.3 How using of Bill : If on the due date of a bill, its drawee or acceptor makes a full payment on it to its holder, the bill is said to be duly met or **honoured.**

Meeting or honouring a bill, thus, means making a full payemnt on it to the holder on the due date by its drawee. For honouring the bill, the drawer or holder of the bill must present the bill to the drawee on or before due date for payment.

Dishonour of a Bill : If the drawee or acceptor of a bill fails to make payment on it on the due date, the bill is said to be **dishonoured**. The bill may be dishonoured in two ways :

(1) When drawee does not accept bill, the bill is said to be dishonoured for non-acceptance.

(2) When drawee refuses or does not make payment on the due date of the bill, the bill is said to be dishonoured for non-payment.

Legal protection afforded by Bills of Exchange :

(i) Noting of Dishonour : On dishonour of a bill, the holder has to create official proof of dishonour by getting the bill noted. For this he has to approach a Notary Public. Noting of a bill of exchange means recording the facts of dishonour of bill of exchange, date of dishonour, reasons of dishonour, parties to bill, etc. by a Notary Public. The Notary Public also records the facts of dishonour in his official register. Thereafter, the holder generally gives a notice of dishonour to all parties to the bill and seeks to recover from any or all of them the value of the bill plus the noting charges.

(ii) Protesting : Protesting refers to issue of formal certificate bearing a Notary's seal by notary public, certifying the facts of dishonour of bill of exchange based on noting. Protesting is absolutely necessary in respect of dishonour of foreign bill of exchange. The protest is accepted by the court as evidence of dishonour of a bill of exchange.

Notary Public : An officer appointed by the Government to certify dishonour of bills of exchange is called Notary Public. According to provisions made in the Notaries Act, 1952, he is a public officer whose function is to administer oaths, to attest and certify, by his hand and official seal, certain classes of documents, in order to give them credit and authenticity, to take acknowledgments of deeds and other to conveyances, and certify the same, and to perform certain official acts, *chiefly in commercial matters such as the protesting of notes and bills, the noting of foreign drafts, and marine protests in cases of loss or damage*. The Notaries Act is administered by the Central as well as State Governments.

Noting Charges : Noting charges refer to fees charged by Notary Public for establishing facts and causes of dishonour of the bill. Drawee or acceptor who is ultimately responsible for dishonour of the bill, has to bear noting charges.

7.4 Accounting treatment of Bills of Exchange :

(a) Retaining the bill till due date : Retaining the bill till due date means act of drawer or holder to keep the bill with himself till its due date. On the due date, the drawer or holder of it has to present the bill to the drawee for payment which may be honoured or dishonoured by drawee.

(b) Endorsement of a bill of exchange : When the holder or owner of a bill of exchange signs on its back with the object of transferring its title to somebody else, the signature or the act of signing is called an **Endorsement** and the bill is said to be **Endorsed**. The person so signing a note or bill is called the **Endorser,** while the person to whom it is endorsed is called the **Endorsee**. The act of endorsement of bill of exchange may continue till its due date.

(c) Discounting of a bill of exchange : A bill is said to be discounted, if before its due date, the holder of the bill, exchanges it for cash, giving away a small part of its face value by way of interest for the unexpired period. Bill is usually discounted with the bank.

While computing the amount of such discount, the students should remember that unless followed by the words 'per annum', the given rate of discount is to be treated as straight or flat, irrespective of the period. Thus, if a three-month bill for ₹ 10,000 is discounted at 5%, the discount will be ₹ 500, but if it is discounted at 5% per annum, the discount will be ₹ 125.

On the due date of the discounted bill, the bank presents the bill before the drawee and recover the entire amount of the bill. In case the bill is dishonoured by the drawee, the bank returns the bill to the drawer and recovers the entire amount from drawer.

Formulae for calculation of discount :

(i) If flat rate of discount is given (i.e. when per annum rate is not given) :

$$\text{Discount} = (\text{Amount of bill}) \times \frac{\text{Rate of discount}}{100}$$

(ii) If discount rate per annum and period in months are given :

$$\text{Discount} = (\text{Amount of bill}) \times \frac{\text{Unexpired period in months}}{12} \times \frac{\text{Rate of discount}}{100}$$

(iii) If discount rate per annum and period in number of days are given :

$$\text{Discount} = (\text{Amount of bill}) \times \frac{\text{Unexpired period in days}}{365 \text{ or } 366} \times \frac{\text{Rate of discount}}{100}$$

in case of leap year number days will be 366 instead of 365.

(d) Sending the Bills of Exchange to the bank for collection : The drawer of a bill of exchange may deposit the bill with the bank with the instruction that the bill be kept till its maturity and present the same before the drawee on its due date to collect its amount. Accordingly on the due date the bank present the bill before the drawee and collects the amount of the bill. Then the bank credits the proceeds of the bill to the bank account of the depositor (drawer or holder). If bill is dishonoured, the bank will return bill to the depositor. For this service the bank debits the account of the depositor with certain amount of charges.

On depositing the bill with the bank for collection purpose, the drawer opens a separate Account called "Bill sent to Bank for collection Account," in his books of accounts.

(e) Renewal of a bill of exchange : If the drawee or acceptor of a bill is not in a position to make full payment on it on its due date, he can approach the drawer on or before the due date and request him for an extension of time for payment.

Thus, renewal of a bill of exchange refers to drafting a new bill of exchange in cancellation of earlier bill of exchange by drawer at the request of drawee.

Note that in most cases, the drawer will not agree to a renewal unless a part payment of the amount due is made in cash and the interest on the unpaid balance for extension of time is also taken into consideration. (Such interest is either paid in cash immediately or is included in the amount of the new bill.)

(f) Ways to renew a bill of exchange :

(1) New bill is drawn without interest for extended credit period :

(a) A new bill is drafted and accepted equal to the amount of old bill for the extended period of credit.

(b) The drawer or holder of bill accepts the part payment and drafts a new bill for the balance amount for the extended credit period.

(2) New bill is drawn with interest for extended credit period :

(a) The drawer or holder receives the interest in cash and drafts a new bill for the amount equal to the amount of that old bill for the extended credit period.

(b) The drawer or holder receives the part payment along with interest on the balance amount in cash and drafts a new bill for the balance amount for the extended credit period.

(c) The drawer or holder receives only part of the bill amount of bill and drafts a new bill for the balance amount plus interest due thereon for the extended credit period.

The drawer may renew the bill even after its dishonour on maturity. In such a case, noting charges may be recovered immediately or added to the amount of new bill.

(g) Insolvency of Acceptor / Drawee on or before due date of a bill : A person whose liabilities are greater than his assets and such liabilities he cannot pay in full, is called insolvent or bankrupt person. If the drawee or acceptor of a bill is declared insolvent, his acceptance is deemed to be dishonoured. Thus, as soon as the drawee or acceptor is declared insolvent, all parties to the bill will treat the bill as dishonoured and pass appropriate entries. If insolvent person owns and possesses any property, it is sold by a liquidator appointed by the court and proceeds so obtained is distributed among the creditors as per the ratio of their dues. Thus, drawer or holder recovers part of the amount due from insolvent drawee's property. The unsatisfied balance which is not recovered is treated as Bad debts and debited to 'Bad debts Account' in the books of drawer and credited to 'Deficiency Account' in the books of drawee or acceptor.

(h) Retirement of a bill of exchange : If the drawee or acceptor desires to pay the amount of the bill before its due date, he may approach its holder and offer to make an early payment, generally in return for a discount or rebate. If the holder of the bill agrees to the proposal, and accordingly drawee makes payment before maturity, the bill is said to be retired.

Retirement of a bill, thus, means its payment by the drawee or acceptor before its due date, generally at a discount or rebate. Such rebate or discount is an expense to the party (i.e. drawer) receiving the payment and gain to the party (i.e. drawee) making the payment.

Pro Forma journal entries with respect to bills transactions in the books of Drawer and Drawee :

Trade Bills Transactions

Sr. No.	Transaction	Journal of Drawer	Journal of Drawee
1.	For credit sale of goods by drawer to drawee	Drawee's A/c Dr. To Sales A/c	Purchases A/c Dr. To Drawer's A/c
2.	For receipt of bill duly accepted by drawee	Bills Receivable A/c Dr. To Drawee's A/c	Drawer's A/c Dr. To Bills Payable A/c
3.	If bill is retained till maturity by drawer and honoured by drawee	Cash / Bank A/c Dr. To Bills Receivable A/c	Bills Payable A/c Dr. To Cash / Bank A/c
4.	If bill is discounted by drawer	Cash / Bank A/c Dr. Discount A/c Dr. To Bills Receivable A/c	No accounting entry
5.	If discounted bill is honoured by drawee	No accounting entry	Bills Payable A/c Dr. To Cash / Bank A/c
6.	If bill is endorsed by drawer	Endorsee's A/c Dr. To Bills Receivable A/c	No accounting entry
7.	If the endorsed bill is honoured by drawee	No accounting entry	Bills Payable A/c Dr. To Cash / Bank A/c
8.	If bill is sent to the bank for collection by drawer	Bills Sent for Collection A/c Dr. To Bills Receivable A/c	No accounting entry
9.	If the bill sent to bank for collection is honoured by drawee and bank charges are debited by the bank	Bank A/c Dr. Bank Charges A/c Dr. To Bills Sent for Collection A/c	Bills Payable A/c Dr. To Cash / Bank A/c
10.	If bill is retained by drawee	Cash / Bank A/c Dr. Rebate Discount A/c Dr. To Bills Receivable A/c	Bills Payable A/c Dr. To Cash / Bank A/c To Rebate Discount A/c
11.	**If Bill is dishonoured by drawee :** (1) If bill is retained by the drawer and dishonoured	Drawee's A/c Dr. To Bills Receivable A/c	Bills Payable A/c Dr. To Drawer's A/c
	(2) If discounted bill is dishonoured	Drawee's A/c Dr. To Bank A/c	Bills Payable A/c Dr. To Drawer's A/c
	(3) If endorsed bill is dishonoured	Drawee's A/c Dr. To Endorsee's A/c	Bills Payable A/c Dr. To Drawer's A/c
	(4) If bill sent to bank for collection is dishonoured	Drawee's A/c Dr. To Bills Sent for Collection A/c	Bills Payable A/c Dr. To Drawer's A/c

Sr. No.	Transaction	Journal of Drawer	Journal of Drawee
12.	**Renewal of bills of exchange by Drawer on the request of Drawee :** (1) Cancellation of first bill	Drawee's A/c Dr. To Bills Receivable A/c	Bills Payable A/c Dr. To Drawer's A/c
	(2) Interest charged by drawer on unpaid balance	Drawee's A/c Dr. To Interest A/c	Interest A/c Dr. To Drawer's A/c
	(3) Part payment accepted by drawer from drawee	Cash / Bank A/c Dr. To Drawee's A/c	Drawer's A/c Dr. To Cash / Bank A/c
	(4) Receipt of new bill for balance amount due	Bills Receivable A/c Dr. To Drawee's A/c	Drawer's A/c Dr. To Bills Payable A/c
	(5) (i) If new bill is sent to bank for collection	Bills Sent for Collection A/c Dr. To Bills Receivable A/c	No accounting entry
	(ii) If new bill is honoured and bank charges debited by bank	Bank A/c Dr. Bank Charges A/c Dr. To Bills Sent for Collection A/c	Bills Payable A/c Dr. To Cash / Bank A/c
	(6) If new bill is honoured by drawee	Cash / Bank A/c Dr. To Bills Receivable A/c	Bills Payable A/c Dr. To Cash / Bank A/c
13.	**For Payment of Noting Charges :** (1) For Payment of Noting Charges by drawer	Drawee's A/c Dr. To Cash / Bank A/c	Noting Charges A/c Dr. To Drawer's A/c
	(2) For Payment of Noting Charges by Bank	Drawee's A/c Dr. To Bank A/c	Noting Charges A/c Dr. To Drawer's A/c
	(3) For Payment of Noting Charges by endorsee	Drawee's A/c Dr. To Endorsee's A/c	Noting Charges A/c Dr. To Drawer's A/c
14.	**Insolvency of Drawee :** (1) If bill is dishonoured on insolvency of drawee	Drawee's A/c Dr. To Bills Receivable A/c	Bills Payable A/c Dr. To Drawer's A/c
	(2) For part of the amount due recovered in full settlement by drawer from the estate of drawee	Cash / Bank A/c Dr. Bad Debts A/c Dr. To Drawee's A/c	Drawer's A/c Dr. To Cash / Bank A/c To Deficiency A/c

- **Pro Forma ledger accounts :**

(1) In the Ledger of DRAWER

Dr. **Drawee's Account** **Cr.**

Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
1	To Sales A/c (Credit sale)		XXX	2	By Bills Receivable A/c (Acceptance received)		XXX
11 (2)	To Bank A/c (Bill dishonoured)		XXX	12 (3)	By Cash / Bank A/c (Part payment)		XXX
11 (3)	To Endorsee's A/c (Bill dishonoured)		XXX	12 (4)	By Bills Receivable A/c (New accept, received)		XXX
11 (4)	To Bills sent for Collection A/c (Bill dishonoured)		XXX	14 (2)	By Cash / Bank A/c		XXX
					By Bad Debts A/c (Part of the amount recovered)		XXX
12 (2)	To Interest A/c (Interest charged)		XXX				
11 (1)	To Bills Receivable A/c (B / R dishonoured)		XXX				
			XXX				XXX

(2) In the Ledger of DRAWEE

Dr. **Drawer's Account** **Cr.**

Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2	To Bills Payable A/c (Acceptance given)		XXX	1	By Purchases A/c (Credit purchase)		XXX
12 (3)	To Cash / Bank A/c (Part payment)		XXX	11	By Bills Payable A/c (Bill dishonoured / cancelled)		XXX
12 (4)	To Bills Payable A/c (New acceptance sent)		XXX	12 (2)	By Interest A/c (Interest due)		XXX
14 (2)	To Cash/Bank A/c		XXX	13 (1)	By Noting Charges A/c (Noting charges borne)		XXX
	To Deficiency A/c (Payment of dues)		XXX	14 (1)	By Bills Payable A/c (Bill dishonoured)		XXX
			XXX				XXX

SOLVED PROBLEMS

1. On 1st April, 2019 Parth draws a bill for ₹ 50,000 on Zalak for 4 months period. The bill is accepted and returned to Parth. On the same date Parth discounted the bill with his bank @ 12 % p.a.

Before due date Zalak finds herself unable to meet the bill, hence requested Parth to renew the bill for further period of 2 months. Parth agreed and he tooks the bill back from bank and recieved new acceptance for ₹ 52,000 including interest. This new bill is duly honoured by Zalak on due date.

Write Journal of Parth and Zalak for the above bill transactions.

Solution :

In the books of Parth

Journal Entries

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2019				
April 1	Bills Receivable A/c Dr. To Zalak's A/c (Being acceptance received from Zalak)		50,000	50,000
1	Cash A/c Dr. Discount A/c Dr. To Bills Receivable A/c (Being bill discounted with the Bank)		48,000 2,000	50,000
August 4	Zalak's A/c Dr. To Cash / Bank A/c (Being entry passed for cancellation of bill at the request of Zalak)		50,000	50,000
5	Zalak's A/c Dr. To Interest A/c (Being interest due on balance amount due from Zalak)		2,000	2,000
6	Bills Receivable A/c Dr. To Zalak's A/c (Being new acceptance received from Zalak for balance plus interest due)		52,000	52,000
Oct. 9	Cash A/c Dr. To Bills Receivable A/c (Being bill honoured by Zalak on its due date)		52,000	52,000

In the books of Zalak
Journal Entries

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
2011					
April 1	Parth's A/c	Dr.		50,000	
	To Bills Payable A/c				50,000
	(Being acceptance given to Parth)				
August 4	Bills Payable A/c	Dr.		50,000	
	To Parth A/c				50,000
	(Being entry passed for cancellation of bill)				
5	Interest A/c	Dr.		2,000	
	To Parth's A/c				2,000
	(Being interest due to Parth on balance amount)				
6	Parth's A/c	Dr.		52,000	
	To Bill Payable A/c				52,000
	(Being new acceptance given for balance and interest due)				
Oct. 9	Bills Payable A/c	Dr.		52,000	
	To Cash A/c				52,000
	(Being bill honoured on its due date)				

2. Prihaan owes Keyur ₹ 75,000. Keyur draws a bill for ₹ 60,000 on Prihaan for 4 months period and received the cheque for the balance. The bill is duly accepted and returned by Prihaan. On the same date Keyur endorsed Prihaan's acceptance to Monil.

On the due date Monil informed Keyur that Prihaan dishonoured his acceptance and ₹ 1,905 paid as noting charges. Keyur then drew a new bill for 3 months on Prihaan for the amount due including noting charges and interest ₹ 2,400. On the due date bill was duly honoured by Prihaan.

Write Journal Entries in the books of Keyur and prepare Keyur's account in the books of Prihaan.

Solution :

In the books of Keyur
Journal Entries

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
1	Bills Receivable A/c	Dr.		60,000	
	Bank A/c	Dr.		15,000	
	To Prihaan's A/c				75,000
	(Being acceptance and cheque received from Prihaan)				
2	Monil's A/c	Dr.		60,000	
	To Bills Receivable A/c				60,000
	(Being bill endorsed in favour of Monil)				
3	Prihaan's A/c	Dr.		60,000	
	To Monil's A/c				60,000
	(Being endorsed bill dishonoured by Prihaan)				

4	Prihaan's A/c Dr. To Monil's A/c (Being noting charges adjusted)		1,905	1,905
5	Prihaan's A/c Dr. To Interest A/c (Being interest due from Prihaan on balance due)		2,400	2,400
6	Bills Receivable A/c Dr. To Prihaan's A/c (Being fresh acceptance received for balance amount including noting charges and interest)		64,305	64,305
7	Cash A/c Dr. To Bills Receivable A/c (Being bill honoured on due date)		64,305	64,305

In the Ledger of PRIHAAN

Dr. **Keyur's Account** **Cr.**

Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
1	To Bills Payable A/c		60,000	–	By Balance b/d		75,000
1	To Bank A/c		15,000	3	By Bills Payable A/c (Bill dishonoured)		60,000
6	To Bills Payable A/c (New acceptance given)		64,305	4	By Noting Charges A/c		1,905
				5	By Interest A/c		2,400
			1,39,305				1,39,305

Working Notes :

(1) Amount paid by cheque = Total amount due from Prihaan – the amount of Bill accepted
= 75,000 – 60,000 = ₹ 15,000.

(2) Amount for which new bill is drawn = Amount of bill dishonoured + Noting charges + Interest
= 60,000 + 1,905 + 2,400 = ₹ 64,305.

Note : *For easy understanding the students are advised to draft the journal entries in the journal of Prihaan first. So that they will be able to understand ledger entries of Keyur's A/c opened in the ledger of Prihaan.*

3. On 1st June, 2020 Bela draws a bill for ₹ 1,00,000 on Premila for 4 months period. The bill is duly accepted and returned to Bela. One month after the date, Bela discounted the bill with bank @ 18 % p.a.

On due date Premila dishonoured her acceptance. Bank paid noting charges ₹ 2,250. Premila requested Bela to renew the bill for further period of 2 months. Bela agreed and took the bill back from bank and received new acceptance for 40 % amount of the bill with full amount of noting charges and cheque for 60 % balance plus interest @ 12 % p.a.

Before the due date Premila was declared as insolvent and 30 % of the amount due could be recovered from her private estate.

Write Journal of Bela and Premila for the above bill transactions.

Pro Forma journal entries with respect to bills transactions in the books of Drawer and Drawee :

Trade Bills Transactions

Sr. No.	Transaction	Journal of Drawer	Journal of Drawee
1.	For credit sale of goods by drawer to drawee	Drawee's A/c Dr. To Sales A/c	Purchases A/c Dr. To Drawer's A/c
2.	For receipt of bill duly accepted by drawee	Bills Receivable A/c Dr. To Drawee's A/c	Drawer's A/c Dr. To Bills Payable A/c
3.	If bill is retained till maturity by drawer and honoured by drawee	Cash / Bank A/c Dr. To Bills Receivable A/c	Bills Payable A/c Dr. To Cash / Bank A/c
4.	If bill is discounted by drawer	Cash / Bank A/c Dr. Discount A/c Dr. To Bills Receivable A/c	No accounting entry
5.	If discounted bill is honoured by drawee	No accounting entry	Bills Payable A/c Dr. To Cash / Bank A/c
6.	If bill is endorsed by drawer	Endorsee's A/c Dr. To Bills Receivable A/c	No accounting entry
7.	If the endorsed bill is honoured by drawee	No accounting entry	Bills Payable A/c Dr. To Cash / Bank A/c
8.	If bill is sent to the bank for collection by drawer	Bills Sent for Collection A/c Dr. To Bills Receivable A/c	No accounting entry
9.	If the bill sent to bank for collection is honoured by drawee and bank charges are debited by the bank	Bank A/c Dr. Bank Charges A/c Dr. To Bills Sent for Collection A/c	Bills Payable A/c Dr. To Cash / Bank A/c
10.	If bill is retained by drawee	Cash / Bank A/c Dr. Rebate Discount A/c Dr. To Bills Receivable A/c	Bills Payable A/c Dr. To Cash / Bank A/c To Rebate Discount A/c
11.	**If Bill is dishonoured by drawee :**		
	(1) If bill is retained by the drawer and dishonoured	Drawee's A/c Dr. To Bills Receivable A/c	Bills Payable A/c Dr. To Drawer's A/c
	(2) If discounted bill is dishonoured	Drawee's A/c Dr. To Bank A/c	Bills Payable A/c Dr. To Drawer's A/c
	(3) If endorsed bill is dishonoured	Drawee's A/c Dr. To Endorsee's A/c	Bills Payable A/c Dr. To Drawer's A/c
	(4) If bill sent to bank for collection is dishonoured	Drawee's A/c Dr. To Bills Sent for Collection A/c	Bills Payable A/c Dr. To Drawer's A/c

Sr. No.	Transaction	Journal of Drawer	Journal of Drawee
12.	**Renewal of bills of exchange by Drawer on the request of Drawee :** (1) Cancellation of first bill	Drawee's A/c Dr. To Bills Receivable A/c	Bills Payable A/c Dr. To Drawer's A/c
	(2) Interest charged by drawer on unpaid balance	Drawee's A/c Dr. To Interest A/c	Interest A/c Dr. To Drawer's A/c
	(3) Part payment accepted by drawer from drawee	Cash / Bank A/c Dr. To Drawee's A/c	Drawer's A/c Dr. To Cash / Bank A/c
	(4) Receipt of new bill for balance amount due	Bills Receivable A/c Dr. To Drawee's A/c	Drawer's A/c Dr. To Bills Payable A/c
	(5) (i) If new bill is sent to bank for collection	Bills Sent for Collection A/c Dr. To Bills Receivable A/c	No accounting entry
	(ii) If new bill is honoured and bank charges debited by bank	Bank A/c Dr. Bank Charges A/c Dr. To Bills Sent for Collection A/c	Bills Payable A/c Dr. To Cash / Bank A/c
	(6) If new bill is honoured by drawee	Cash / Bank A/c Dr. To Bills Receivable A/c	Bills Payable A/c Dr. To Cash / Bank A/c
13.	**For Payment of Noting Charges :** (1) For Payment of Noting Charges by drawer	Drawee's A/c Dr. To Cash / Bank A/c	Noting Charges A/c Dr. To Drawer's A/c
	(2) For Payment of Noting Charges by Bank	Drawee's A/c Dr. To Bank A/c	Noting Charges A/c Dr. To Drawer's A/c
	(3) For Payment of Noting Charges by endorsee	Drawee's A/c Dr. To Endorsee's A/c	Noting Charges A/c Dr. To Drawer's A/c
14.	**Insolvency of Drawee :** (1) If bill is dishonoured on insolvency of drawee	Drawee's A/c Dr. To Bills Receivable A/c	Bills Payable A/c Dr. To Drawer's A/c
	(2) For part of the amount due recovered in full settlement by drawer from the estate of drawee	Cash / Bank A/c Dr. Bad Debts A/c Dr. To Drawee's A/c	Drawer's A/c Dr. To Cash / Bank A/c To Deficiency A/c

- **Pro Forma ledger accounts :**

(1) In the Ledger of DRAWER

Dr. **Drawee's Account** **Cr.**

Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
1	To Sales A/c (Credit sale)		XXX	2	By Bills Receivable A/c (Acceptance received)		XXX
11 (2)	To Bank A/c (Bill dishonoured)		XXX	12 (3)	By Cash / Bank A/c (Part payment)		XXX
11 (3)	To Endorsee's A/c (Bill dishonoured)		XXX	12 (4)	By Bills Receivable A/c (New accept, received)		XXX
11 (4)	To Bills sent for Collection A/c (Bill dishonoured)		XXX	14 (2)	By Cash / Bank A/c		XXX
12 (2)	To Interest A/c (Interest charged)		XXX		By Bad Debts A/c (Part of the amount recovered)		XXX
11 (1)	To Bills Receivable A/c (B / R dishonoured)		XXX				
			XXX				XXX

(2) In the Ledger of DRAWEE

Dr. **Drawer's Account** **Cr.**

Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2	To Bills Payable A/c (Acceptance given)		XXX	1	By Purchases A/c (Credit purchase)		XXX
12 (3)	To Cash / Bank A/c (Part payment)		XXX	11	By Bills Payable A/c (Bill dishonoured / cancelled)		XXX
12 (4)	To Bills Payable A/c (New acceptance sent)		XXX	12 (2)	By Interest A/c (Interest due)		XXX
14 (2)	To Cash/Bank A/c		XXX	13 (1)	By Noting Charges A/c (Noting charges borne)		XXX
	To Deficiency A/c (Payment of dues)		XXX	14 (1)	By Bills Payable A/c (Bill dishonoured)		XXX
			XXX				XXX

SOLVED PROBLEMS

1. On 1st April, 2019 Parth draws a bill for ₹ 50,000 on Zalak for 4 months period. The bill is accepted and returned to Parth. On the same date Parth discounted the bill with his bank @ 12 % p.a.

Before due date Zalak finds herself unable to meet the bill, hence requested Parth to renew the bill for further period of 2 months. Parth agreed and he tooks the bill back from bank and recieved new acceptance for ₹ 52,000 including interest. This new bill is duly honoured by Zalak on due date.

Write Journal of Parth and Zalak for the above bill transactions.

Solution : **In the books of Parth**

Journal Entries

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2019				
April 1	Bills Receivable A/c Dr.		50,000	
	To Zalak's A/c			50,000
	(Being acceptance received from Zalak)			
1	Cash A/c Dr.		48,000	
	Discount A/c Dr.		2,000	
	To Bills Receivable A/c			50,000
	(Being bill discounted with the Bank)			
August 4	Zalak's A/c Dr.		50,000	
	To Cash / Bank A/c			50,000
	(Being entry passed for cancellation of bill at the request of Zalak)			
5	Zalak's A/c Dr.		2,000	
	To Interest A/c			2,000
	(Being interest due on balance amount due from Zalak)			
6	Bills Receivable A/c Dr.		52,000	
	To Zalak's A/c			52,000
	(Being new acceptance received from Zalak for balance plus interest due)			
Oct. 9	Cash A/c Dr.		52,000	
	To Bills Receivable A/c			52,000
	(Being bill honoured by Zalak on its due date)			

In the books of Zalak
Journal Entries

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2011				
April 1	Parth's A/c Dr.		50,000	
	To Bills Payable A/c			50,000
	(Being acceptance given to Parth)			
August 4	Bills Payable A/c Dr.		50,000	
	To Parth A/c			50,000
	(Being entry passed for cancellation of bill)			
5	Interest A/c Dr.		2,000	
	To Parth's A/c			2,000
	(Being interest due to Parth on balance amount)			
6	Parth's A/c Dr.		52,000	
	To Bill Payable A/c			52,000
	(Being new acceptance given for balance and interest due)			
Oct. 9	Bills Payable A/c Dr.		52,000	
	To Cash A/c			52,000
	(Being bill honoured on its due date)			

2. Prihaan owes Keyur ₹ 75,000. Keyur draws a bill for ₹ 60,000 on Prihaan for 4 months period and received the cheque for the balance. The bill is duly accepted and returned by Prihaan. On the same date Keyur endorsed Prihaan's acceptance to Monil.

On the due date Monil informed Keyur that Prihaan dishonoured his acceptance and ₹ 1,905 paid as noting charges. Keyur then drew a new bill for 3 months on Prihaan for the amount due including noting charges and interest ₹ 2,400. On the due date bill was duly honoured by Prihaan.

Write Journal Entries in the books of Keyur and prepare Keyur's account in the books of Prihaan.

Solution :

In the books of Keyur
Journal Entries

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Bills Receivable A/c Dr.		60,000	
	Bank A/c Dr.		15,000	
	To Prihaan's A/c			75,000
	(Being acceptance and cheque received from Prihaan)			
2	Monil's A/c Dr.		60,000	
	To Bills Receivable A/c			60,000
	(Being bill endorsed in favour of Monil)			
3	Prihaan's A/c Dr.		60,000	
	To Monil's A/c			60,000
	(Being endorsed bill dishonoured by Prihaan)			

4	Prihaan's A/c Dr. To Monil's A/c (Being noting charges adjusted)		1,905	1,905
5	Prihaan's A/c Dr. To Interest A/c (Being interest due from Prihaan on balance due)		2,400	2,400
6	Bills Receivable A/c Dr. To Prihaan's A/c (Being fresh acceptance received for balance amount including noting charges and interest)		64,305	64,305
7	Cash A/c Dr. To Bills Receivable A/c (Being bill honoured on due date)		64,305	64,305

In the Ledger of PRIHAAN

Dr. **Keyur's Account** **Cr.**

Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
1	To Bills Payable A/c		60,000	–	By Balance b/d		75,000
1	To Bank A/c		15,000	3	By Bills Payable A/c (Bill dishonoured)		60,000
6	To Bills Payable A/c (New acceptance given)		64,305	4	By Noting Charges A/c		1,905
				5	By Interest A/c		2,400
			1,39,305				1,39,305

Working Notes :

(1) Amount paid by cheque = Total amount due from Prihaan – the amount of Bill accepted
= 75,000 – 60,000 = ₹ 15,000.

(2) Amount for which new bill is drawn = Amount of bill dishonoured + Noting charges + Interest
= 60,000 + 1,905 + 2,400 = ₹ 64,305.

Note : *For easy understanding the students are advised to draft the journal entries in the journal of Prihaan first. So that they will be able to understand ledger entries of Keyur's A/c opened in the ledger of Prihaan.*

3. On 1st June, 2020 Bela draws a bill for ₹ 1,00,000 on Premila for 4 months period. The bill is duly accepted and returned to Bela. One month after the date, Bela discounted the bill with bank @ 18 % p.a.

On due date Premila dishonoured her acceptance. Bank paid noting charges ₹ 2,250. Premila requested Bela to renew the bill for further period of 2 months. Bela agreed and took the bill back from bank and received new acceptance for 40 % amount of the bill with full amount of noting charges and cheque for 60 % balance plus interest @ 12 % p.a.

Before the due date Premila was declared as insolvent and 30 % of the amount due could be recovered from her private estate.

Write Journal of Bela and Premila for the above bill transactions.

Solution :

In the books of Bela
Journal Entries

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
2020					
June 1	Bills Receivable A/c	Dr.		1,00,000	
	To Premila A/c				1,00,000
	(Being acceptance received from Premila for 4 months period)				
July 1	Cash A/c	Dr.		95,500	
	Discount A/c	Dr.		4,500	
	To Bills Receivable A/c				1,00,000
	(Being bill discounted with the bank for unexpired period of 3 months)				
Oct. 4	Premila's A/c	Dr.		1,00,000	
	To Cash / Bank A/c				1,00,000
	(Being entry passed for dishonour of the bill)				
5	Premila's A/c	Dr.		2,250	
	To Cash / Bank A/c				2,250
	(Being noting charges paid and adjusted to Premila's A/c)				
6	Premila's A/c	Dr.		845	
	To Interest A/c				845
	(Being interest due on balance amount from Premila)				
7	Bank A/c	Dr.		60,845	
	To Premila's A/c				60,845
	(Being part payment along with interest due on balance amount received)				
8	Bills Receivable A/c	Dr.		42,250	
	To Premila's A/c				42,250
	(Being new acceptance received for balance due plus noting charges)				
Dec. 11	Premila's A/c	Dr.		42,250	
	To Bills Receivable A/c				42,250
	(Being bill dishonoured by Premila)				
12	Cash A/c	Dr.		12,675	
	Bad debts A/c	Dr.		29,575	
	To Premila's A/c				42,250
	(Being 30 % of the amount due recovered from Premila's estate)				

In the books of Premila
Journal Entries

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2020				
June 1	Bela's A/c Dr.		1,00,000	
	To Bills Payable A/c			1,00,000
	(Being acceptance given to Bela)			
Oct. 4	Bills Payable A/c Dr.		1,00,000	
	To Bela's A/c			1,00,000
	(Being entry passed for dishonour of the bill)			
5	Noting Charges A/c Dr.		2,250	
	To Bela's A/c			2,250
	(Being noting charges due to Bela)			
6	Interest A/c Dr.		845	
	To Bela's A/c			845
	(Being interest due on balance amount)			
7	Bela's A/c Dr.		60,845	
	To Bank A/c			60,845
	(Being part payment along with interest due paid to Bela)			
8	Bela's A/c Dr.		42,250	
	To Bills Payable A/c			42,250
	(Being acceptance given to Bela)			
Dec. 11	Bills Payable A/c Dr.		42,250	
	To Bela's A/c			42,250
	(Being bill dishonoured due to insolvency of Premila)			
12	Bela's A/c Dr.		42,250	
	To Cash A/c			12,675
	To Deficiency A/c			29,575
	(Being 30 % of the amount due paid due to insolvency)			

Working Notes :

(1) Discount charged by the bank on discounting 1st bill = 1,00,000 × $\frac{3}{12}$ × $\frac{18}{100}$ (Period of bill is 4 months, but it is discounted 1 month later) = ₹ 4,500.

(2) Amount paid by Premila to Bela in Part payment = 60 % of Bill amount = 60 % of 1,00,000 = ₹ 60,000.

(3) Balance amount still due from Premila to Bela = 40 % of Bill amount = 40 % of 1,00,000 = ₹ 40,000.

(4) Interest is to be calculated on total amount due from Premila
= Balance due + Unpaid amount noting charges
= 40,000 + 2,250 = ₹ 42,250.
Interest due = Balance amount × Unexpired period × Rate of interest

$$= 42{,}250 \times \frac{2}{12} \times \frac{12}{100} = ₹\ 845$$

(5) Amount paid by Premila to Bela = 60,000 + 845 = ₹ 60,845.

(6) Amount for which new bill is drafted and accepted = ₹ 42,250.

(7) Amount recovered by Bela from the property of Premila = 30 % of total amount due

$$= \frac{30}{100} \times 42,250$$

$$= ₹\ 12,675$$

(8) Bad debts incurred by Bela = Total Amount due – Amount recovered = 42,250 – 12,675 = ₹ 29,575.

EXERCISE

(A) Select the most appropriate alternatives from the following and rewrite the sentences :

*(1) (1) The person on whom a bill is drawn is called a ....
(a) Drawee (b) Payee (c) Drawer (d) Acceptor

(2) Before acceptance the bill is called a ....
(a) Order (b) Request (c) Draft (d) Instrument

(3) When the due date of bill drawn falls due on a public holiday, the payment must be made on the .... day.
(a) same (b) preceding (c) next (d) any

(4) The due date of the bill drawn for 2 months on 23rd Nov. 2019 will be ....
(a) 23rd Jan. 2020 (b) 25th Jan. 2019 (c) 26th Jan. 2019 (d) 25th Jan. 2020

(5) Noting charges are borne by ....
(a) Notary Public (b) Drawee (c) Drawer (d) Endorsee

(6) There are .... parties to bill of exchange.
(a) five (b) four (c) three (d) two

(7) When a bill is drawn for 2 months after date on 3rd Jan. 2020, its due date will be ....
(a) 3rd Jan. 2020 (b) 3rd Mar. 2020 (c) 5th Mar. 2020 (d) 6th Mar. 2020

(8) Notary Public is ....
(a) Govt. Officer (b) Drawer (c) Payee (d) Endorsee

(9) When Acceptor or Drawee does not pay the amount of bill to the holder on the due date it is known as .... the bill.
(a) returning (b) discounting (c) honouring (d) dishonouring

(10) The person who accepts the bill treats the bill as ....
(a) Bills Payable (b) Promissory Note (c) Draft (d) Bills Receivable

Ans. (1) Drawee (2) Draft (3) preceding (4) 25th Jan. 2020 (5) Drawee (6) three (7) 6th Mar. 2020 (8) Govt. Officer (9) dishonouring (10) Bills Payable

(2) (1) A bill of exchange is called a .... by one who is entitled to receive the amount due on it.
(a) Bills Payable (b) Draft (c) Bills Receivable (d) Promissory Note.

(2) The person who draws a bill of exchange is called ....
(a) Payee (b) Drawee (c) Endorsee (d) Drawer

(3) A bill of exchange is required to be .... by drawee.
(a) drafted (b) discounted (c) accepted (d) endorsed

(4) A person who accepts the bill is called ....
(a) Drawer (b) Acceptor (c) Payee (d) Creditor

(5) The person to whom the amount of the bill is made payable is called --------- . **OR** --------- is a person to whom the amount on a bill is payable.
(a) Endorsee (b) Drawer (c) Drawee (d) Payee

(6) When the acceptor accepts the bill with certain conditions, the acceptance is called --------- Acceptance.
(a) Qualified (b) General (c) Clean (d) Special

(7) The drawee becomes an --------- on acceptance of a bill.
(a) acceptor (b) owner (c) endorser (d) drawer

(8) Borrowing money from a bank on the security of a bill of exchange is called --------- .
(a) Honouring (b) Endorsing (c) Discounting (d) Retiring

(9) A bill of exchange is/can be discounted with the --------- .
(a) bank (b) payee (c) money lenders (d) government

(10) Transferring a bill of exchange before maturity to a third party is called --------- of a bill of exchange.
(a) honouring (b) endorsement (c) retirement (d) discounting

(11) The person who endorses the bill of exchange is known as --------- .
(a) Drawer (b) Endorsee (c) Endorser (d) Drawee

Ans. (1) Bills Receivable (2) Drawer (3) accepted (4) Acceptor (5) Payee (6) Qualified (7) acceptor (8) Discounting (9) bank (10) endorsement (11) Endorser.

(3) (1) A person to whom a bill of exchange is endorsed is called --------- .
(a) Endorsee (b) Drawer (c) Endorser (d) Payee

(2) If a bill falls due on 15th August, payment on it must be made on --------- .
(a) 14th August (b) 16th August (c) 13th August (d) 17th August

(3) A bill drawn on 12th June, 2020 at two months would be payable on --------- .
(a) 12th August, 2020 *(b) 14th August, 2020*
(c) 15th August, 2020 *(d) 16th August, 2020*

(4) If a bill is drawn on 3rd July, 2020 for 40 days, its payment must be made on --------- .
(a) 14th August, 2020 *(b) 15th August, 2020*
(c) 13th August, 2020 *(d) 16th August, 2020*

(5) A bill is drawn on 23rd September, 2019 at 4 months would be paybale on --------- .
(a) 24th January, 2020 *(b) 25th January, 2020*
(c) 26th January, 2020 *(d) 25th January, 2019*

(6) A bill is drawn on 23rd October, 2016 payable after 3 months, the due date of the bill will be --------- .
(a) 25th January, 2017 *(b) 26th January, 2017*
(c) 24th January, 2017 *(d) 25th January, 2016*

(7) --------- means payment of the bill before due date.
(a) Discounting of Bill *(b) Retirement of Bill*
(c) Renewal of Bill *(d) Endorsement of Bill*

(8) A bill of one month duration is accepted on 12th July, 2007, its due date will be --------- .
(a) 12th August, 2020 *(b) 16th August, 2020*
(c) 14th August, 2020 *(d) 15th August, 2020*

(9) When a bill is dishonoured, the --------- is held responsible for the noting charges.
(a) holder (b) drawee (c) drawer (d) endorser

(10) Fees charged by the Notary Public for noting facts or reasons of dishonour of bill are called --------- .
(a) Discount (b) Rebate (c) Noting Charges (d) Commission

(11) Noting charges are paid when a bill is --------- .
(a) honoured (b) dishonoured (c) renewed (d) retired

(12) --------- is done in respect of dishonour of foreign bill of exchange.
(a) Discounting (b) Endorsement (c) Noting (d) Protesting

Ans. (1) Endorsee (2) 14th August (3) 14th August, 2020 (4) 14th August, 2020 (5) 25th January, 2020 (6) 25th January, 2020 (7) Retirement of Bill (8) 14th August, 2020 (9) drawee (10) Noting Charges (11) dishonoured (12) Protesting

(B) * (1) Write the word / phrase / term, which can substitute each of the following statements :

Statement	Ans. (word / phrase / term)
(1) Three extra days which are allowed over and above the term of bill.	Grace days
(2) Fees charged by Notary Public for getting the fact of dishonour noted.	Noting Charges
(3) A person who is entitled to receive the amount of bill of exchange.	Payee
(4) A person in whose favour a bill endorsed.	Endorsee
(5) Officer appointed by goverment for noting of dishonour of bill.	Notary Public
(6) Cancellation of bill on maturity in return of a new bill for extended period of credit.	Renewal of Bill
(7) Bill of exchange drawn and accepted without any valuable consideration,	Accomodation bill
(8) Person who is in possession of Bill of Exchange.	Holder
(9) Conversion of Bill of Exchange into its present value.	Discounting of the bill
(10) Amount which is not recoverable from Drawee on account of insolvency.	Bad debts

(2)

Statement	Ans. (word / phrase / term)
(1) A bill of exchange drawn and accepted for a value received.	Trade bill
(2) A person who draws a bill of exchange.	Drawer
(3) A person on whom a bill of exchange is drawn.	Drawee
(4) Payment in accordance with the apparent tenor of the bill.	Honour
(5) Non-payment in accordance with the apparent tenor of the bill.	Dishonour
(6) Acceptance without making any change in the terms of a bill.	General acceptance
(7) Acceptance with some changes as regards the terms of a bill.	Qualified acceptance
(8) A bill of which payment to be made after fixed period.	After date bill
(9) The bill which is drawn in one country and payable in other country.	Foreign bill
(10) Encashment of the bill before due date.	Discounting
(11) Transfer of title of the bill from debtor to creditor.	Endorsement
(12) Payment of the bill before due date.	Retirement of bill

Statement	Ans. (word / phrase / term)
(13) A document which consists of written order signed by the maker, directing a certain person to pay certain sum of money on demand or on certain future date.	Bill of Exchange
(14) A person who accepts the bill.	Drawee or Acceptor
(15) The period for which a bill drawn.	Term / Tenure of a bill of exchange

(3)

Statement	Ans. (word / phrase / term)
(1) A bill of exchange that does not contain the period for its payment.	Demand bill / Bill at sight
(2) The date on which period of the bill gets expired.	Nominal due date
(3) Date on which the payment of the bill is to be made.	Due date or Date of maturity
(4) Drawee's signature on the face of the bill to show his consent to pay the amount of the bill.	Acceptance of a bill of exchange
(5) A bill of exchange before its acceptance.	Draft
(6) A bill drawn, accepted and made payable within the territory of one and same country.	Inland bill of exchange
(7) Selling a bill to the bank before its due date for an amount slightly less than its face value.	Discounting of a bill of exchange
(8) Act of signing the bill on its back by its holder to transfer its title to a third person.	Endorsement of a bill of exchange
(9) Discount given by holder to acceptor on retirement of bill of exchange.	Rebate
(10) Non-payment of bill on due date.	Dishonour of a bill of exchange
(11) Recording the facts of dishonour of a bill of exchange by a Notary Public.	Noting
(12) The request by the acceptor of the bill to drawer for issuing a new bill after cancelling the old bill.	Renewal of the bill of exchange
(13) The account to which bill sent for collection is debited.	Bill sent for Collection Account
(14) Payment of a bill on the due date.	Honouring of a bill of exchange
(15) Drafting a new bill in cancellation of old bill at the request of drawee.	Renewal of the bill of exchange
(16) Certificate given by Notary Public for the fact of dishonour of the bill.	Certificate of protest
(17) The account to be debited in case of dishonour of bill in the books of drawer.	Drawee's Account
(18) A foreign bill accompanied by shipping documents.	Documentary bill.

(C) * (1) State whether the following statements are True or False with reasons :

(1) Inland bill is one which is drawn in one country and payable in another country.

Ans. This statement is **False.**

Inland bill means, a bill drawn, accepted and made payable within the territory of one and same, country. So, a bill drawn in one country and payable in another country can't be a inland bill.

(2) Retirement of bill means payment of the bill before due date.

Ans. This statement is **True.**

Payment of the bill, by the acceptor of the bill to the holder of the bill before due date, is known as Retirement of bill. So retirement of bill means payment of the bill before due date.

(3) Drawee can transfer the ownership of bill.

Ans. This statement is **False.**

Drawee is a debtor. He has to pay the amount of the bill to its holder on due date. Hence he cannot transfer its ownership to other person. Drawer can transfer the ownership of bill as he is the owner of the bill.

(4) Acceptance of bill without making any changes in the terms of bill is called qualified acceptance.

Ans. This statement is **False.**

Acceptance of the bill with some changes as regards the terms, amount, place, etc. of a bill is known as qualified acceptance. Acceptance of the bill without making changes as regards the term is called general acceptance.

(5) Discounting is a device to convert the bill into its present value.

Ans. This statement is **True.**

When drawer or holder of the bill approaches the bank to discount the bill, bank pays the bill amount after deducting certain amount (which is known as discounting charges). It means conversion of the bill into its present value in cash. So, we can say that discounting is a device to convert the bill into its present value.

(6) A bill of exchange must be presented to the acceptor on the due date.

Ans. This statement is **True.**

To get the payment of the bill from the acceptor, the holder of the bill is required to present it to the acceptor on its due date. Acceptor either honours the bill or dishonours the bill.

(7) If a bill is discounted by the holder, no entry is passed in his book when bill is honoured on the due date.

Ans. This statement is **True.**

On discounting the bill the holder gives the possession of the bill to the bank. On maturity date the bank has to present the bill to the drawee to collect the payment. When discounted bill is honoured, the transaction takes place between drawee and bank.

(8) Noting charges are to be borne by the drawer.

Ans. This statement is **False.**

Noting charges are to be borne by the drawee only as due to his act of non-payment, bill is dishonoured and drawer is not able to get money on its due date.

(9) If a bill is drawn payable 'on demand' no grace days are allowed.

Ans. This statement is **True.**

'On demand' means amount of the bill is to be paid by drawee immediately on presentation of the bill as no time period is mentioned on it. In demand bill 3 days grace are not allowed by law.

(10) There are three parties to a promisory note.

Ans. This statement is **False.**

There are only two parties to a promisory note, i.e. Drawer or maker of the note and drawee or payee of the note.

(2) **(1) Bills payable is a liability.**

Ans. This statement is **True.**

Bill is always drawn on debtor by the creditor. The debtor i.e. drawee has to pay the money on future date. For the drawee or acceptor of the bill, payment of amount of Bills payable is certain and therefore, for drawee, Bills payable is a liability.

(2) Drawee has no right to discount the bill with bank.

Ans. This statement is **True.**

Drawee means acceptor of a bill and for him it is bills payable. Once he accept it, sign it and returned it to the drawer he don't have any bill with him to discount it with bank. He is not the owner of the bill and hence, he has no right to discount the bill with bank.

(3) A bill of exchange needs acceptance.

Ans. This statement is **True.**

A bill of exchange is drawn by the creditor on debtor. It is signed by drawer as well as by drawee. The drawee has to give his assent to the terms and conditions of the bill by putting his signature on it. A bill without acceptance is called draft. It becomes valid document only when drawee accepts it.

(4) A bill can't be deposited into bank for collection.

Ans. This statement is **False.**

When a drawer or holder of the bill needs money on due date, he has to deposit bill into bank for collection purpose. So that bank can collect the amount in time. Means a bill can be deposited into bank for collection.

(5) Noting charges are payable to the Notary Public on honour of a bill.

Ans. This statement is **False.**

Noting charges are payable to the Notary Public at the time of registration of a dishonour bill, not at the time of honour of a bill.

(6) A bill of exchange is a negotiable instrument.

Ans. This statement is **True.**

Being a negotiable instrument, a bill of exchange is a written acknowledgement of debts and also a promise to pay the debt according to the terms of the bill and can be transferred from one person to another.

(7) A bill of exchange is signed by the person on whom it is drawn.

Ans. This statement is **True.**

A bill of exchange is signed by the person who draws or makes it, and the person on whom it is drawn accepts it.

(8) Acceptance with some change as regards the terms of a bill is called general acceptance.

Ans. This statement is **False.**

General acceptance means, acceptance of a draft without any change or conditions regards the terms of a bill.

(9) Drawee is a person who holds the title of the bill in due course.

Ans. This statement is **False.**

Drawer is a person who holds the title of the bill in due course as drawee accept it and return it to drawer.

(10) Payee is a official person appointed by Central government for noting of dishonour of bill.

Ans. This statement is **False.**

Notary public is a official person appointed by Central government for noting of dishonour of bill and making it a legal.

* (D) Find the odd one :

(1) *(a) Retaining* *(b) Noting* *(c) Discounting* *(d) Endorsing*

(2) *(a) Trade bill* *(b) Accommodation bill* *(c) After date bill* *(d) Demand bill*

(3) *(a) Notary public* *(b) Drawer* *(c) Drawee* *(d) Payee*

(4) *(a) Discounting charges* *(b) Rebate* *(c) Bank charges* *(d) Noting charges*

(5) *(a) Stamp* *(b) Acceptance* *(c) Draft* *(d) Amount*

Ans. (1) Noting (2) Demand bill (3) Notary public (4) Noting charges (5) Draft

(E) * (1) Complete the sentences :

(1) Making payment of bill before the due date of maturity is known as ....

(2) Person whose liabilities are more than his assets and is not in position to pay off his liabilities is ....

(3) Amount that cannot be paid by acceptor on account of insolvency is known as ....

(4) A bill of exchange payable after certain period is known as ....

(5) A bill which is drawn and accepted with valuable consideration is known as ....

(6) A person who draws the bill of exchange is known as ....

(7) A bill whose due date is calculated from the date of acceptance is known as ....

(8) Recording the fact of dishonour of bill is known as ....

(9) When drawee accepts the bill payable at a particular place only, it is known as ....

(10) Fees charged by the bank for collection of bill on behalf of holder is ....

Ans. (1) Retirement of Bill (2) Insolvent person (3) Deficiency (4) After date bill (5) Trade Bill (6) Drawer (7) After sight bill (8) Noting (9) qualified acceptance as to place (10) bank charges

(2) (1) A person to whom or as per his order, amount of bill is payable is a ....

(2) The inland bill is drawn and payable in the .... country.

(3) Discounting means encashment of the bill before its ....

(4) .... can transfer the ownership of the bill.

(5) Noting charges are payable to the Notary public on .... of a bill.

(6) A bill of exchange is a ....

(7) If a discounted bill is honoured, the .... does not record this transaction.

(8) Days of grace are not allowed in the case of a ....

(9) Noting charges should be borne by ....

Ans. (1) Payee (2) same (3) due date (4) Drawer (5) dishonour (6) negotiable instrument (7) drawer (8) demand bill (9) drawee.

(F) * (1) Answer in one sentence only :

(1) What do you mean by Bill of Exchange ?

Ans. A Bill of Exchange is a written order signed by the drawer, directing to a certain person to pay a certain sum of money on demand or on a certain future date to a certain person or as per his order.

(2) What are Days of Grace ?

Ans. The three extra days allowed to drawee or the acceptor of a bill for making payment on it are called Days of Grace.

(3) What do you mean by Discounting a Bill of Exchange ?

Ans. Encashment of a bill of exchange with the bank for certain cash which is less than face value of the bill, before its due date by its drawer or holder is called Discounting of a Bill of Exchange.

(4) What is Noting of the Bill ?

Ans. Noting of a Bill of Exchange is the recording the facts of its dishonour by a Notary public.

(5) What are Noting Charges ?

Ans. Noting Charges are the fees charged by the Notary public for noting the facts of dishonour on the face of the bill and in his official register.

(6) What is relationship between drawer and drawee ?

Ans. The relationship between the drawer and the drawee is that of the creditor and debtor.

(7) Who is Payee of the Bill ?

Ans. The Payee of a Bill is the person to whom the bill is made payable or in whose favour the bill is drawn.

(8) What do you mean by Rebate ?

Ans. Any concession or discount in monetary terms given by the holder of the bill of exchange to the drawee or acceptor, when a bill is retired is called Rebate.

(9) What is Legal Due Date ?

Ans. Date which is arrived at after adding three days of grace to nominal due date is known as Legal Due Date.

(10) What is Bills Payable on Demand ?

Ans. When amount of bill is payable by a drawee on the presentation of a bill, in which time period is not mentioned and grace days are not allowed is known as Bills Payable on Demand.

(2) **(1) State the types of Bills of Exchange.**

Ans. The bills of exchange may be classified as (1) Inland bills of exchange and (2) Foreign bills of exchange.

(2) What is Inland bill of exchange ?

Ans. A bill of exchange which is drafted, accepted and made payable between the parties from one and the same country is called an Inland bill of exchange.

(3) What is Foreign bill of exchange ?

Ans. A bill of exchange which is drafted and accepted in one country and made payable in other country is called Foreign bill of exchange.

(4) Which are the parties to a bill of exchange ?

Ans. There are three parties to a bill of exchange, viz., (1) Drawer, (2) Drawee and (3) Payee.

(5) Who is the Drawer ?

Ans. The Drawer of a bill is the person who draws or makes the bill.

(6) Who is the Drawee ?

Ans. The Drawee of a bill is the person on whom the bill is drawn.

(7) What is a Draft ?

Ans. A bill of exchange is called a Draft before its acceptance.

(8) What is an Acceptance of the Bill of Exchange ?

Ans. The act of signing the bill of exchange by the drawee with date to show his consent to pay the amount of the bill is called an Acceptance of the Bill of Exchange.

(9) What do you mean by Clean or General Acceptance ?

Ans. A Clean or General Acceptance is an acceptance where drawee does not make any change in the terms of the bill before accepting it.

(10) What is Qualified Acceptance ?

Ans. If the drawee of a bill of exchange accepts it on condition that the time or amount of the bill be changed or adds some other conditions to the bill, his acceptance is called a Qualified Acceptance.

(3) **(1) What is the term of the bill of exchange ?**

Ans. The period for which the bill of exchange is drawn and accepted is called the term of the bill of exchange.

(2) What is Nominal Due Date ?

Ans. The date on which the term i.e. the period of a bill of exchange gets expired is called Nominal Due Date.

(3) What is the Due Date of a Bill ?

Ans. The Due Date of a Bill of Exchange is the date on which it is falling due for payment by the drawee.

(4) What is Endorsing of a Bill ?

Ans. Endorsing of a Bill is the holder's signing on its back with the intention of transferring its title or ownership to another person.

(5) Who is an Endorser ?

Ans. The drawer or the holder of a bill of exchange who transfers or endorses the same in favour of third party is called Endorser.

(6) Who is an Endorsee ?

Ans. An Endorsee is the person to whom or in whose favour a bill is endorsed or transferred.

(7) What is Retirement of a Bill ?

Ans. A bill of exchange is said to be retired if its acceptor makes payment of it before its due date, usually after deducting some discount or rebate.

(8) When is a bill said to be honoured ?

Ans. A bill of exchange is said to be honoured or met when the acceptor or drawee makes payment on its due date.

(9) When is the bill said to be dishonoured ?

Ans. A bill of exchange is said to be dishonoured if its acceptor or drawee fails to make payment on its due date.

(10) Which account is credited in the books of the drawer when discounted bill is dishonoured ?

Ans. Cash / Bank A/c is credited in the books of the drawer when discounted bill is dishonoured.

(11) Who is a Notary Public ?

Ans. An officer appointed by Government to certify dishonour of bills of exchange is called Notary Public.

(12) Who bears the noting charges on dishonour of a bill ?

Ans. An acceptor or drawee bears the noting charges on dishonour of a bill of exchange.

(13) Who pays the noting charges ?

Ans. The holder of the bill of exchange pays the noting charges.

(14) What do you mean by Renewal of a Bill ?

Ans. Renewal of a Bill of Exchange means cancellation of original bill and drafting a new bill in exchange of that by drawer at the request of drawee.

(G) * (1) Do you agree / disagree with the following statements :

(1) A bill of exchange is a conditional order.
(2) The party which is ordered to pay the amount is known as payee.
(3) The person in whose favour the bill is endorsed is known as endorsee.
(4) Rebate or discount given on retiring a bill is an income to the Drawee.
(5) A bill from the point of view of debtor is called Bills payable.
(6) In case of bill drawn payable 'on demand' no grace days are allowed.
(7) A bill is required to be accepted by Drawer.
(8) A bill of exchange need not be dated.
(9) A bill before acceptance is called Promissory Note.
(10) Renewal is request by drawee to extend the credit period of the bill.

Ans. (1) Disagree (2) Disagree (3) Agree (4) Agree (5) Agree (6) Agree (7) Disagree (8) Disagree (9) Disagree (10) Agree

(2) (1) A bill of which payment to be made after fixed period is after date bill.
(2) Drawee can transfer the ownership of the bill.
(3) Endorsee is person in whose favour the bill is transferred.
(4) The drawer and payee of a bill of exchange may be one and the same person.
(5) A bill of exchange can be endorsed only once.
(6) Days of grace are allowed in the case of demand bill.
(7) The noting of dishonoured bill is compulsory.
(8) Endorser is a creditor to endorsee.
(9) Bills payable is a liability.
(10) A bill of exchange is a negotiable instrument.

Ans. (1) Agree (2) Disagree (3) Agree (4) Agree (5) Disagree (6) Disagree (7) Disagree (8) Disagree (9) Agree (10) Agree

*** (H) Calculate the following :**

(1) Ganesh draws a bill for ₹ 40,260 on 15th Jan., 2020 for 50 days. He discounted the bill with Bank of India @ 15 % p. a. on the same day. Calculate the amount of discount.

Solution :

$$\text{Discount} = \text{Amount of Bill} \times \frac{\text{Rate}}{100} \times \frac{\text{Unexpired days}}{366}$$

$$= 40{,}260 \times \frac{15}{100} \times \frac{50}{366}$$

$$= ₹\ 825$$

(**Note :** 2020 is a Leap year, so total number of days = 366)

(2) Shefali Traders drew a bill on Maya for ₹ 30,000 on 1st Oct., 2019 payable after 3 months.

Calculate amount of discount in the following cases :

(i) Shefali Traders discounted the bill on the same day @ 12 % p.a.
(ii) Shefali Traders discounted the bill on 1st Nov., 2019 @ 12 % p.a.
(iii) Shefali Traders discounted the bill on 1st Dec., 2019 @ 12 % p.a.

Solution :

$$\text{Discount} = \text{Amount of Bill} \times \frac{\text{Rate}}{100} \times \frac{\text{Unexpired months}}{365}$$

(i) $\text{Discount} = 30{,}000 \times \frac{12}{100} \times \frac{3}{12} = ₹\ 900$

(ii) $\text{Discount} = 30{,}000 \times \frac{12}{100} \times \frac{2}{12} = ₹\ 600$

(iii) $\text{Discount} = 30{,}000 \times \frac{12}{100} \times \frac{1}{12} = ₹\ 300$

(3) Veena who had accepted Sudha's bill for ₹ 28,000 was declared bankrupt and only 35 paise in a rupee could be recovered from her estate. Calculate the amount of bad debts.

Solution :

From Veena, only 35 paise in a rupee could be recovered i.e. 65 paise in a rupee is bad debts for Sudha. So 65 % of ₹ 28,000 = ₹ 18,200 is the amount of bad debts.

(4) Nitin renewed his acceptance for ₹ 72,000 by paying ₹ 22,000 in cash and accepting a new bill for the balance plus interest @ 18 %. p.a. for 4 months. Calculate the amount of new bill.

Solution :

For Nitin, Total outstanding = ₹ 72,000
Nitin paid in cash = ₹ 22,000
Remaining dues = ₹ 50,000

Now, on this ₹ 50,000 we have to calculate interest @ 18 % for 4 months

$$I = \frac{PRN}{100} = 50{,}000 \times \frac{18}{100} \times \frac{4}{12} = ₹\ 3{,}000$$

So, amount of new bill = Remaining dues + Interest
= 50,000 + 3,000
= ₹ 53,000

(5) Nisha's acceptance for ₹ 16,850 sent to bank for collection was honoured and bank charges debited were ₹ 125. Find out the amount actually received by Drawer.

Solution :

Bill of ₹ 16,850 sent to bank for collection and it is honoured and bank charges = ₹ 125

So, actual amount received by drawer = 16,850 – 125
= ₹ 16,725.

(6) A bill of ₹ 16,000 was drawn by Keshav on Gopal on 12th June, 2019 for 2 months, what will be the due date, if all of sudden, the legal due date is declared as emergency holiday ?

Solution :

Consider immediate or next working day as due date in case the legal due date is declared as emergency holiday.

i.e. Here, it is 12th June, 2019	12 / 06 / 2019
+ 2 months	+ 02
+ 3 days of grace	+ 03
	15 / 08 / 2019

∴ Legal due date is 16th August, 2019 (Next day).

* (I) Prepare the following specimens :

(1) Prepare a bill of exchange from the following information :

Drawer : Shankar, Vadodara, Gujarat
Drawee : Vinayak, Somwar peth, Pune
Amount : ₹ 16,000
Period : 3 months
Date of Bill : 6th Sept., 2019
Date of acceptance : 11th Sept., 2019

Solution :

BILL OF EXCHANGE

STAMP

₹ 16,000 / –

Shankar,
Vadodara,
Gujarat.
Date : 6th September, 2019

Three months after date, pay to me or my order, the sum of Rupees Sixteen Thousand only for the value received.

To,
Vinayak,
Somwar peth,
Pune.

Accepted
Sd. / –
(Vinayak)
Date : 11th September, 2019

Sd. / –
(Shankar)

(2) Prepare a bill of exchange from the following information :

Drawer : Dinesh, P. R. Road, Andheri (West)
Drawee : Mahesh, L. B. S. Road, Mulund
Payee : Amit, Thane (West)
Amount : ₹ 9,500
Period of Bill : 4 months after sight
Date of Bill : 26th Nov., 2019
Date of acceptance : 29th Nov., 2019

Solution :

BILL OF EXCHANGE

STAMP

₹ 9,500 / –

Dinesh
P. R. Road,
Andheri (West)
Date : 26th Nov., 2019

Four months after sight, pay to Amit, Thane (West) or his order, the sum of Rupees Nine Thousand Five Hundred only for the value received.

To,
Mahesh,
L. B. S. Road,
Mulund.

'Accepted
Sd. / –
(Mahesh)
Date : 29th November, 2019

Sd. / –
(Dinesh)

(3) Kantilal, 343 / D, Palm Heights, Jogeshwari, drew a bill on 10th Oct., 2019 for ₹ 63,490 for 45 days after date on Shantilal, B2, Himalaya Towers, Baramati, payable to Priyanksa, Satara. The bill was accepted on 13th Oct. 2019 for 60 days.

Prepare a format of bill of exchange from the above details.

Solution :

BILL OF EXCHANGE

STAMP

₹ 63,490 / –

Kantilal,
343 / D, Palm Heights,
Jogeshwari.
Date : 10th Oct., 2019

45 days after date, pay to Priyanksa, Satara, the sum of Rupees Sixty Three Thousand Four Hundred Ninty only for the value received.

To,
Shantilal,
B2, Himalaya Towers,
Baramati.

Accepted
Sd. / –
(Shantilal)
Date : 13th Oct., 2019

Sd. / –
(Kantilal)

(4) Prepare a format of bill exchange from the following details :

Rahul Sane, 86 – D, Raviwar Peth, Nagpur accepted the bill drawn on him by Prithviraj, Icon Heights, Wardha for ₹ 87,000 on 30th July, 2019.

The bill was drawn on 26th July, 2019 for ₹ 1,00,000 for 90 days after date.

Solution :

BILL OF EXCHANGE

STAMP

₹ 1,00,000 / –

Prithviraj,
Icon Heights,
Wardha.
Date : 26th July, 2019

Ninety days after date, pay to me or my order, the sum of Rupees One Lakh only for the value received.

To,
Rahul Sane,
86 – D, Raviwar Peth,
Nagpur.

Accepted only for
₹ 87,000
Sd. / –
(Rahul Sane)
Date : 30th July, 2019

Sd. / –
(Prithviraj)

(5) Prepare a format of bill of exchange from the followings :

Drawer : Kashmira Shah, Partner M / S Shah and Shah, 2 – C, Matruchhaya Building, Akola
Drawee : Dhanashree Traders, Bangalore Road, Belgaum (Signed by Jayshree, Partner)
Payee : M / S Janki Traders, Akola
Amount : ₹ 64,500
Period of Bill : 3 months
Date of drawing : 12th Sept., 2019
Date of acceptance : 15th Sept., 2019

Solution :

BILL OF EXCHANGE

STAMP

₹ 64,500 / –

M / S Shah and Shah
2 – C, Matruchhaya Building,
Akola.
Date : 12th Sept,, 2019

Three months after date, pay to M / S Janki Traders, Akola, or their order, the sum of Rupees Sixty Four Thousand Five Hundred only for the value received.

To,
Dhanashree Traders,
Bangalore Road,
Belgaum.

Accepted
Sd. / –
(Jayshree)
Partner for
Dhanashree Traders
Date : 15th Sep,, 2019

Sd. / –
(Kashmira Shah)
Partner for M/s Shah and Shah

(6) Prepare a format Bill of Exchange with imaginary Drawer, Drawee, Address, Amount, Dates.

(1) Drawer : Dhanesh Shah, 24 / c, Amir Mahal, Borivali, Mumbai
(2) Drawee : Kalpana Shah, 33, Sharadashram, Dadar (West), Mumbai
(3) Amount : ₹ 80,500
(4) Period : 60 days
(5) Date of bill : 2nd December, 2020
(6) Accepted on : 5th December, 2020

Solution :

BILL OF EXCHANGE

STAMP

₹ 80,500 / –

Dhanesh Shah,
24 / c, Amir Mahal,
Borivali, Mumbai.
Date : 2nd December, 2020

Sixty days after date, pay to me or my order, the sum of Rupees Eighty Thousand Five Hundred only for value received.

To,
Kalpana Shah,
33, Sharadashram,
Dadar (West), Mumbai.

Accepted
Sd. / –
(Kalpana Shah)
Date : 5th December, 2020

Sd. / –
(Dhanesh Shah)

*** (J) Complete the following Table :**

(1)

Date of Drawing	**Date of Acceptance**	**Payable**	**Due Date**
(i) 30 – 01 – 2019	01 – 02 – 2019	60 days after date	
(ii) 17 – 08 – 2019	21 – 08 – 2019	3 months after sight	
(iii) 23 – 12 – 2019	26 – 12 – 2019	1 month after date	
(iv) 28 – 01 – 2019	28 – 01 – 2020	1 month after date	
(v) 30 – 06 – 2019	02 – 07 – 2019	45 days after date	

Ans.

Date of Drawing	**Date of Acceptance**	**Payable**	**Due Date**
(i) 30 – 01 – 2019	01 – 02 – 2019	60 days after date	3rd April, 2019
(ii) 17 – 08 – 2019	21 – 08 – 2019	3 months after sight	24th Nov. 2019
(iii) 23 – 12 – 2019	26 – 12 – 2019	1 month after date	25h Jan. 2019
(iv) 28 – 01 – 2020	28 – 01 – 2020	1 month after date	2nd Mar. 2019
(v) 30 – 06 – 2019	02 – 07 – 2019	45 days after date	17th Aug. 2019

(2)

Sr. No.	Date of Drawing	Date of Acceptance	Tenure	Type	Nominal due Date	Legal due Date
(i)	3rd January, 2020	5th January, 2020	45 days	after date	?	?
(ii)	9th April, 2019	12th April, 2019	4 months	after sight	?	?
(iii)	23rd November, 2019	23rd November, 2019	2 months	after date	?	?
(iv)	16th August, 2019	20th August, 2019	4 months	after sight	?	?
(v)	23rd December, 2018	24th December, 2018	60 days	after date	?	?

Solution :

Sr. No.	Date of Drawing	Date of Acceptance	Tenure	Type	Nominal due Date	Legal due Date
(i)	3rd January, 2020	5th January, 2020	45 days	after date	17th Feb. 2020	20th Feb. 2020
(ii)	9th April, 2019	12th April, 2019	4 months	after sight	12th Aug. 2019	14th Aug. 2019
(iii)	23rd November, 2019	23rd November, 2019	2 months	after date	23rd Jan. 2020	25th Jan. 2020
(iv)	16th August, 2019	20th August, 2019	4 months	after sight	20th Dec. 2019	23rd Dec. 2019
(v)	23rd December, 2018	24th December, 2018	60 days	after date	21st Feb. 2019	24th Feb. 2019

SOLUTIONS OF TEXTUAL PROBLEMS

*** (1) On 1st Jan., 2020 Hemant sold goods of ₹ 18,500 to Nitin. On the same date Hemant drew a bill of exchange for ₹ 18,500 at 2 months. On the due date the bill was duly honoured. Give Journal Entries in the books of Hemant and Nitin. Prepare Hamant's Account in the books of Nitin.**

Solution :

In the books of Hemant

Journal Entries

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2020 Jan. 1	Nitin's A/c Dr.		18,500	
	To Sales A/c			18,500
	(Being goods sold on credit)			
1	Bills Receivable A/c Dr.		18,500	
	To Nitin's A/c			18,500
	(Being bill drawn and acceptance received from Nitin)			
2020 Mar. 4	Cash / Bank A/c Dr.		18,500	
	To Bills Receivable A/c			18,500
	(Being Nitin's acceptance honoured on the due date)			

In the books of Nitin
Journal Entries

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2020 Jan. 1	Purchase A/c Dr. To Hemant's A/c (Being goods purchased on credit)		18,500	 18,500
1	Hemant's A/c Dr. To Bills Payable A/c (Being our acceptance is given)		18,500	 18,500
2020 Mar. 4	Bills Payable A/c Dr. To Cash / Bank A/c (Being our acceptance honoured on due date)		18,500	 18,500

Dr. **In the books of Nitin** **Cr.**
Hemant's Account

Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2020 Jan. 1	To Bills Payable A/c		18,500	2020 Jan. 1	By Purchase A/c		18,500
			18,500				18,500

* (2) **Neha sold goods to Rohan ₹ 42,000 on 6th Sept., 2019. Neha drew a bill of exchange at 3 months for the amount which was accepted by Rohan. Neha discounted the bill with her bankers at ₹ 41,000. On the due date of the bill Rohan dishonoured the bill and bank paid ₹ 300 as Noting Charges.**

Show Journal Entries in the books of Neha and Rohan.

Solution : **In the books of Neha**
Journal Entries

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2019 Sept. 6	Rohan's A/c Dr. To Sales A/c (Being goods sold on credit)		42,000	 42,000
6	Bills Receivable A/c Dr. To Rohan's A/c (Being bill drawn and acceptance received)		42,000	 42,000
6	Bank A/c Dr. Discount A/c Dr. To Bills Receivable A/c (Being Rohan's acceptance discounted with bank)		41,000 1,000	 42,000

Dec. 9	Rohan's A/c Dr. To Bank A/c (Being Rohan's acceptance discounted with bank dishonoured and noting charges paid by the bank.)		42,300	 42,300

In the books of Rohan Journal Entries

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2019 Sept. 6	 Purchase A/c Dr. To Neha's A/c (Being goods purchased on credit)		 42,000	 42,000
6	Neha's A/c Dr. To Bills Payable A/c (Being our acceptance given)		42,000	 42,000
Dec. 9	Bills Payable A/c Dr. Noting Changes A/c Dr. To Neha's A/c (Being our acceptance dishonoured and noting charges payable)		42,000 300	 42,300

* (3) **Jyoti owes ₹ 31,000 to Swati for which she draws a bill on Jyoti for 2 months. The bill was duly accepted by Jyoti. Swati sends the bill to bank for collection. Jyoti honoured the bill on the due date and bank charges ₹ 475 as bank charges.**

Give Journal Entries in the books of Swati.

Solution :

In the books of Swati
Journal Entries

Date	Particulars	LF	Debit (₹)	Credit (₹)
(1)	Bills Receivable A/c Dr. To Jyoti's A/c (Being bill drawn and acceptance received)		31,000	 31,000
(2)	Bills Sent to Bank for Collection A/c Dr. To Bills Receivable A/c (Being bill sent to bank for collection)		31,000	 31,000
(3)	Bank A/c Dr. Bank Charges A/c Dr. To Bill Sent to Bank for Collection A/c (Being bill honoured and bank charges paid)		30,525 475	 31,000

* (4) **Pankaj purchased goods of ₹ 20,000 from Omprakash on credit on 15th April, 2019. Omprakash draws After Sight bill for the amount due on Pankaj for 3 months which was accepted by Pankaj on 18th April, 2019. On 20th April, 2019 Omprakash endorsed the bill to his creditor Jagdish in full settlement of his amount ₹ 21,000. On the due date the bill was dishonoured by Pankaj.**

Give Journal Entries in the books of Omprakash, Pankaj and Jagdish.

Solution :

In the books of Omprakash
Journal Entries

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
2019					
April 15	Pankaj's A/c	Dr.		20,000	
	To Sales A/c				20,000
	(Being goods sold on credit)				
18	Bills Receivable A/c	Dr.		20,000	
	To Pankaj's A/c				20,000
	(Being bill drawn and acceptance received)				
20	Jagdish's A/c	Dr.		21,000	
	To Bills Receivable A/c				20,000
	To Discount A/c				1,000
	(Being Pankaj's acceptance endorsed)				
July 23	Pankaj's A/c	Dr.		20,000	
	Discount A/c	Dr.		1,000	
	To Jagdish's A/c				21,000
	(Being Pankaj's acceptance dishonoured and revert the Jagdish's A/c)				

In the books of Pankaj
Journal Entries

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
2019					
April 15	Purchase A/c	Dr.		20,000	
	To Omprakash's A/c				20,000
	(Being goods purchased on credit)				
18	Omprakash's A/c	Dr.		20,000	
	To Bills Payable A/c				20,000
	(Being our acceptance is given)				
20	No Entry			–	–
July 23	Bill Payable A/c	Dr.		20,000	
	To Omprakash's A/c				20,000
	(Being our acceptance dishonoured on due date)				

In the books of Jagdish
Journal Entries

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2019				
April 20	Bills Receivable A/c Dr.		20,000	
	Discount A/c Dr.		1,000	
	To Omprakash's A/c			21,000
	(Being Bills Receivable received)			
July 23	Omprakash's A/c Dr.		21,000	
	To Bills Receivable A/c			20,000
	To Discount A/c			1,000
	(Being Bills receivable dishonoured)			

*** (5) Siddhant sold goods to Sudhir of ₹ 43,800 on 18th March, 2019. Siddhant draws a bill on Sudhir on the same day for ₹ 43,800 for 3 months which was duly accepted by Sudhir. Siddhant discounted the bill on the same day at 8 % p. a. The bill was dishonoured on the due date and Sudhir requested Siddhant to accept ₹ 13,800 and interest in cash on remaining amount at 12 % p. a. Siddhant agreed and for the balance amount accepted a new bill at 2 months. Before the due date of new bill Sudhir retired the bill by paying ₹ 29,700.**

Pass necessary Journal Entries in the books of Siddhant.

Solution :

In the books of Siddhant
Journal Entries

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2019				
Mar. 18	Sudhir's A/c Dr.		43,800	
	To Sales A/c			43,800
	(Being goods sold on credit)			
18	Bills Receivable A/c Dr.		43,800	
	To Sudhir's A/c			43,800
	(Being bill drawn and acceptance received)			
18	Cash / Bank A/c Dr.		42,924	
	Discount A/c Dr.		876	
	To Bill Receivable A/c			43,800
	(Being Sudhir's acceptance discounted with bank)			
June 21	Sudhir's A/c Dr.		43,800	
	To Cash / Bank A/c			43,800
	(Being Sudhir's acceptance dishonoured on due date)			
21	Cash A/c Dr.		14,400	
	To Interest A/c			600
	To Sudhir's A/c			13,800
	(Being cash accepted with interest from Sudhir)			

21	New Bills Receivable A/c Dr. To Sudhir's A/c (Being Sudhir's acceptance received for new bill)		30,000	 30,000
–	Cash / Bank A/c Dr. Rebate A/c Dr. To New Bills Receivable A/c (Being before due date, Sudhir's retired the bill with discount)		29,700 300	 30,000

Working Notes :

(1) March 18, Discount = 43,800 × $\frac{3}{12}$ × $\frac{8}{100}$ = ₹ 876

(2) March 21, calculation of interest balance amount : I = $\frac{PRN}{100}$ = 30,000 × $\frac{12}{100}$ × $\frac{2}{12}$

[for 2 months on remaining amount ₹ 30,000] = ₹ 600

(3) Before due date bill was retired by Sudhir by paying ₹ 300 less which is considered as discount and as date is not given, here it is not recorded.

*** (6) Sangeeta accepted a bill for ₹ 18,000 drawn by Geeta at 3 months. Geeta discounted the bill for ₹ 17,400. Before the due date Sangeeta approached Geeta for renewal of the bill. Geeta agreed on the condition that Sangeeta should pay ₹ 6,000 immediately and for the balance she should accept a new bill for 4 months along with interest ₹ 550. The arrangements were carried through. But on the due date of new bill Sangeeta became insolvent and 35 paise in a rupee could be recovered from her estate.**

Give Journal Entries in the books of Sangeeta and prepare Sangeeta's Account in the books of Geeta.

Solution :

In the books of Sangeeta
Journal Entries

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Geeta's A/c Dr. To Bill Payable A/c (Being our acceptance is given)		18,000	 18,000
2	Bills Payable A/c Dr. To Geeta's A/c (Being bill cancelled on our request)		18,000	 18,000
3	Geeta's A/c Dr. To Bank A/c (Being part payment made)		6,000	 6,000
4	Interest A/c Dr. To Geeta's A/c (Being the interest due on balance amount to be paid)		550	 550
5	Geeta's A/c Dr. To New Bills Payable A/c (Being the acceptance given for balance amount plus amount of interest)		12,550	 12,550

6	New Bills Payable A/c Dr. To Geeta's A/c (Being new bill dishonoured)		12,550	 12,550
7	Geeta's A/c Dr. To Cash A/c To Deficiency A/c (Being 35 % of the amount due paid and balance credited to deficiency A/c)		12,550	 4,393 8,157

In the books of Geeta
Sangeeta's Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
–	To Balance b/d		18,000	1	By Bill Receivable A/c (Acceptance received)		18,000
3	To Bank A/c (Dishonour)		18,000				
5	To Interest A/c (Int. due)		550	4	By Bank A/c (Part payment)		6,000
7	To Bills Receivable A/c (Dishonour)		12,550	6	By Bills Receivable A/c (New acceptance)		12,550
				8	By Cash A/c		4,393
					By Bad debts A/c		8,157
			49,100				49,100

Working Notes :

(1) It is advisable to write journal entries in the books of Geeta also to get entries in 'Sangeeta's Account' property.

Solution :

In the books of Geeta
Journal Entries

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Bills Receivable A/c Dr. To Sangeeta's A/c		18,000	 18,000
2	Bank A/c Dr. Discount A/c Dr. To Bills Receivable A/c		17,400 600	 18,000
3	Sangeeta's A/c Dr. To Bank A/c (Cancellation of discounted bill)		18,000	 18,000
4	Bank A/c Dr. To Sangeeta's A/c		6,000	 6,000
5	Sangeeta's A/c Dr. To Interest A/c		550	 550
6	Bills Receivable A/c Dr. To Sangeeta's A/c		12,550	 12,550

7	Sangeeta's A/c Dr. To Bills Receivable A/c		12,550	 12,550
8	Cash A/c Dr. Bad debts A/c Dr. To Sangeeta's A/c		4,393 8,157	 12,550

* (7) **Priyanka owed Meena ₹ 18,000, Priyanka accepted a bill drawn by Meena for the amount at 4 months. Meena endorsed the same bill to Sagar. Before due date Priyanka approached Meena for renewal of bill. Meena agreed on condition that ₹ 6,000 be paid immediately together with interest on the remaining amount of 8 % p. a. for 3 months and Priyanka should accept a new bill for the balance amount. These arrangements were carried through. However, before the due date Priyanka became insolvent and only 50 % of the amount could be recovered from her estate.**

Give Journal Entries in the books of Meena.

Solution :

In the books of Meena

Journal Entries

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Bills Receivable A/c Dr. To Priyanka's A/c (Being bill drawn and acceptance is received)		18,000	 18,000
2	Sagar's A/c Dr. To Bills Receivable A/c (Being bill endorsed in favour of Sagar)		18,000	 18,000
3	Priyanka's A/c Dr. To Sagar's A/c (Being the bill cancelled at the request of Priyanka)		18,000	 18,000
4	Cash A/c Dr. To Interest A/c To Priyanka's A/c		6,240	 240 6,000
5	Bills Receivable A/c Dr. To Priyanka's A/c (Being new bill of remaining amount drawn and acceptance is received)		12,000	 12,000
6	Priyanka's A/c Dr. To Bills Receivable A/c (Being the bill dishonoured for non-payment)		12,000	 12,000
7	Cash A/c Dr. Bad debts A/c Dr. To Priyanka's A/c (Being part payment received at the time of insolvency)		6,000 6,000	 12,000

Working Note :

Calculation of interest on remaining amount

₹ 12,000 @ 8 % p. a. and for 3 months

$$I = \frac{PRN}{100} = 12,000 \times \frac{8}{100} \times \frac{3}{12} = ₹\ 240$$

* (8) **Seema purchased goods from Roma on credit on 1st August, 2019 for ₹ 37,000. Seema accepts bill for 2 months drawn by Roma for the same amount. On the same day, Roma discounts the bill with the bank for ₹ 36,200 on 3rd August, 2019. On the due date the bill is dishonoured and Noting Charges of ₹ 160 is paid by the bank. Seema pays ₹ 19,000 and Noting Charges in cash immediately. A new bill is drawn by Roma for the balance including interest ₹ 650 for 2 months, which is accepted by Seema. The new bill is retired one month before the due date at a rebate of ₹ 300.**

Give Journal Entries in the books of Seema and prepare Seema's Account in the books of Roma.

Solution :

In the books of Seema
Journal Entries

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2019				
Aug. 1	Purchase A/c Dr.		37,000	
	To Roma's A/c			37,000
	(Being goods purchased on credit)			
1	Roma's A/c Dr.		37,000	
	To Bills Payable A/c			37,000
	(Being our acceptance is given)			
Oct. 4	Bills Payable A/c Dr.		37,000	
	To Roma's A/c			37,000
	(Being our acceptance dishonoured)			
4	Noting Charges A/c Dr.		160	
	To Roma's A/c			160
	(Being noting charges due to Roma)			
4	Roma's A/c Dr.		19,160	
	To Cash A/c			19,160
	(Being paid part payment and noting charges in cash)			
4	Interest A/c Dr.		650	
	To Roma's A/c			650
	(Being interest amount due)			
4	Roma's A/c Dr.		18,650	
	To Bills Payable A/c			18,650
	(Being remaining due amount with interest, our acceptance is given)			

Nov. 7	Bills Payable A/c Dr. To Cash A/c To Rebate A/c (Being before one month of due date, Bills payable amount paid at a rebate of ₹ 300)		18,650	18,350 300

In the books of Roma

Seema's Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2019				**2019**			
Aug. 1	To Sales A/c		37,000	Aug. 1	By Bills Receivable A/c		37,000
Oct. 4	To Bank A/c (Dishonour & Noting Charges)		37,160	4	By Cash A/c		19,160
4	To Interest A/c		650	Nov. 7	By Bills Receivable A/c (New)		18,650
			74,810				74,810

* (9) **Uday purchased goods from Shankar on credit for ₹ 35,000 at 10 % trade discount. Uday paid ₹ 1,500 immediately and for the balance accepted a bill for 3 months. Before due date Uday approached Shankar with a request to renew the bill. Shankar agreed but with condition that Uday should accept a new bill for 3 months including interest at 12 % p.a.**

Give Journal Entries in the books of Shankar.

Solution : **In the books of Shankar**

Journal Entries

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Uday's A/c Dr. To Sales A/c (Being goods sold on credit @ 10 % trade discount)		31,500	31,500
2	Cash A/c Dr. To Uday's A/c (Being cash received from Uday)		1,500	1,500
3	Bills Receivable A/c Dr. To Uday's A/c (Being bill drawn and acceptance received)		30,000	30,000
4	Uday's A/c Dr. To Bills Receivable A/c (Being the bill cancelled at the request of Uday)		30,000	30,000
5	Uday's A/c Dr. To Interest A/c (Being interest amount due)		900	900

6	New Bills Receivable A/c Dr. To Uday's A/c (Being new bill drawn with interest and acceptance received)		30,900	 30,900

Working Note :

$$I = \frac{PRN}{100} = 30{,}000 \times \frac{3}{12} \times \frac{12}{100} = ₹\ 900$$

*** (10) Sagar drawn an after sight bill on 21st Nov., 2019 for ₹ 21,000 at 3 months on Prasad. The bill is discounted by Sagar at 8 % p.a. with his bank. On maturity. Prasad finds himself unable to make payment of the bill and requests Sagar to renew it. Sagar accepts the request and draws a new bill at one month for ₹ 21,750 including interest which was duly accepted by Prasad. Sagar deposits the bill into bank for the collection. Prasad honours the bill on the due date and bank charges ₹ 250 as bank charges.**

Pass necessary Journal Entries in the books of Sagar and prepare Sagar's Account in the books of Prasad.

Solution :

In the books of Sagar
Journal Entries

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2019 Nov. 21	Bills receivable A/c Dr. To Prasad's A/c (Being bill drawn and acceptance received.)		21,000	 21,000
21	Bank A/c Dr. Discount A/c Dr. To Bills Receivable A/c (Being bill discounted with bank)		20,580 420	 21,000
2020 Feb. 24	Prasad's A/c Dr. To Bank A/c (Being the bill cancelled)		21,000	 21,000
24	Prasad's A/c Dr. To Interest A/c (Being interest amount due)		750	 750
24	New Bills Receivable A/c Dr. To Prasad's A/c (Being new bill drawn and acceptance received)		21,750	 21,750
24	Bill Sent for Collection A/c Dr. To New Bills Receivable A/c (Being new bill sent for collection to bank)		21,750	 21,750

Mar. 27	Bank A/c Dr. Bank Charges A/c Dr. To Bill sent for collection A/c (Being the amount of the bill collected by the bank and credited to our Account by deducting bank charges)		21,500 250	 21,750

In the books of Prasad

Sagar's Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2019				**2019**			
Nov. 21	To Bills Payable A/c (Acceptance given)		21,000	Nov. 21	By Balance b/d		21,000
				2020			
24	To Bill Payable A/c (New acceptance given)		21,750	Feb. 24	By Bills Payable A/c (Dishonour)		21,000
				24	By Interest A/c (Int. due)		750
			42,750				42,750

*** (11) Journalise the following transaction in the books of Abhishek :**

(a) Siddhant informs Abhishek that Vineet's acceptance for ₹ 23,000 endorsed to Siddhant has been dishonoured. Noting Charges amounted to ₹ 430.

(b) Kajal renews her acceptance to Abhishek for ₹ 39,000 by paying ₹ 3,000 in cash and accepting a fresh bill for the balance along with interest at 11.5 % p. a. for 3 months.

(c) Radhika retired her acceptance to Abhishek for ₹ 23,000 by paying ₹ 22,250 by cheque.

(d) Abhishek sent a bill of Subodh for ₹ 9,000 to bank for collection. Bank informed that the bill has been dishonoured by Subodh.

Solution :

In the books of Abhishek

Journal Entries

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
(a)	Vineet's A/c Dr. To Siddhant's A/c (Being Vineet's acceptance endorsed to Siddhant dishonoured and noting charges amount is included)		23,430	 23,430
(b) (i)	Kajal's A/c Dr. To Bills Receivable A/c (Being cancellation of bill)		39,000	 39,000
(ii)	Cash A/c Dr. To Kajal's A/c (Being cash received from Kajal)		3,000	 3,000
(iii)	Kajal's A/c Dr. To Interest A/c (Being interest amount due)		1,035	 1,035

(iv)	New Bills Receivable A/c Dr.		37,035	
	To Kajal's A/c			37,035
	(Being new bill drawn and acceptance is received)			
(c)	Bank A/c Dr.		22,250	
	Rebate A/c Dr.		750	
	To Bills Receivable A/c			23,000
	(Being Radhika retired her acceptance)			
(d) (i)	Bill Sent for Collection A/c Dr.		9,000	
	To Bills Receivable A/c			9,000
	(Being Subodh's acceptance sent to bank for collection)			
(ii)	Subodh's A/c Dr.		9,000	
	To Bill Sent for collection A/c			9,000
	(Being Subodh's acceptance dishonoured.)			

Working Note :

Amount of interest $36,000 \times \frac{3}{12} \times \frac{11.5}{100} = ₹\ 1,035.$

*** (12) Journalise the following transaction in the books of Narendra :**

(a) Narendra retires his acceptance to Upendra by paying ₹ 4,000 in cash and endorsing a bill accepted by Ramlal for ₹ 5,000.

(b) Vikram's acceptance to Narendra ₹ 6,000 retired one month before the due date at rebate of 12 % p.a.

(c) Dilip renews his acceptance to Narendra for ₹ 12,000 by paying ₹ 4.000 in cash and accepting a fresh bill for the balance plus interest at 12 % p.a. for 3 months.

(d) Bank informed Narendra that, Kartik's acceptance for ₹ 13,000 to Narendra, discounted with the bank was dishonoured and Noting Charges paid by bank ₹ 140.

Solution :

In the books of Narendra
Journal Entries

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
(a)	Bills Payable A/c Dr.		9,000	
	To Cash A/c			4,000
	To Bills Receivable A/c			5,000
	(Being Upendra's dues cleared by paying cash and endorsing a bill)			
(b)	Cash A/c Dr.		5,940	
	Rebate A/c Dr.		60	
	To Bills Receivable A/c			6,000
	(Being Vikram's acceptance retired with rebate)			
(c) (i)	Dilip's A/c Dr.		12,000	
	To Bills Receivable A/c			12,000
	(Being cancellation of bill)			

(ii)	Cash A/c Dr. To Dilip's A/c (Being cash received)		4,000	4,000
(iii)	Dilip's A/c Dr. To Interest A/c (Being interest due)		240	240
(iv)	Bills Receivable A/c Dr. To Dilip's A/c (Being fresh bill accepted by Dilip for remaining amount plus interest)		8,240	8,240
(d)	Kartik's A/c Dr. To Bank A/c (Being Kartik's acceptance dishonoured and bank paid noting charges)		13,140	13,140

*** (13) Journalise the following transaction in the books of Bharti :**

- **(a) Bank informed that Amit's acceptance for ₹ 15,750 sent to bank for collection was honoured and bank charges debited were ₹ 150.**
- **(b) Nitin renewed his acceptance for ₹ 22,200 by paying ₹ 2.200 in cash along with interest on balance amount at 10 % and accepted a fresh bill for the balance for 3 months.**
- **(c) Dhanshri who had accepted Bharti's bill for ₹ 17,500 was declared insolvent and only 40 % of the amount due could be recovered from her estate.**
- **(d) Discharged our acceptance to Savita for ₹ 9,450 by endorsing Pravin's acceptance to us ₹ 9,000.**

Solution :

In the books of Bharti
Journal Entries

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
(a)	Bank A/c Dr. Bank Charges A/c Dr. To Bill sent for collection A/c (Being the amount of Bill collected by bank and credited to our Bank A/c and Bank Charges debited)		15,600 150	15,750
(b) (i)	Nitin's A/c Dr. To Bills Receivable A/c (Being cancellation of bill)		22,200	22,200
(ii)	Nitin's A/c Dr. To Interest A/c (Being interest amount due)		500	500

(iii)	Cash A/c Dr. To Nitin's A/c (Being part payment along with interest received)		2,700	 2,700
(iv)	Bills Receivable A/c Dr. To Nitin's A/c (Being the acceptance received for balance amount due)		20,000	 20,000
(c) (i)	Dhanshri's A/c Dr. To Bills Receivable A/c (Being bill dishonoured for non-payment)		17,500	 17,500
(ii)	Cash A/c Dr. Bad Debts A/c Dr. To Dhanshri's A/c (Being 40 % due amount received from Dhanshri, as being declared insolvent)		7,000 10,500	 17,500
(d)	Bills Payable A/c Dr. To Discount A/c To Bills Receivable A/c (Being our acceptance Savita i.e. B. P. is cleared by endorsing Pravin's acceptance i.e. B. R.)		9,450	 450 9,000

*** (14) Journalise the following transaction in the books of Sudha :**

(a) Endorsed Sonali's acceptance at 2 months for ₹ 6,000 in favour of Urmila and paid cash ₹ 3,500 in full settlement of her account ₹ 10,000.

(b) Discounted 2 months acceptance of Surya for ₹ 7,800 with bank at 10 % p.a.

(c) Bank informed that Anuradha's acceptance of ₹ 4,800 which was discounted was dishonoured and bank paid Noting Charges ₹ 125.

(d) Pooja honoured her acceptance of ₹ 16,400 which was deposited into bank for collection.

Solution :

In the books of Sudha

Journal Entries

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
(a)	Urmila's A/c Dr. To Cash A/c To Discount A/c To Bills Receivable A/c (Being Sonali's acceptance endorsed in favour of Urmila with cash to clear her debt)		10,000	 3,500 500 6,000
(b)	Bank A/c Dr. Discount A/c Dr. To Bills Receivable A/c (Being discounted Surya's acceptance with bank) (**Hint :** $7,800 \times \frac{10}{100} \times \frac{2}{12} = ₹\ 130$)		7,670 130	 7,800

(c)	Anuradha's A/c Dr. To Bank A/c (Being discounted bill dishonoured and noting charges paid by bank)		4,925	4,925
(d)	Bank A/c Dr. To Bill Sent for Collection A/c (Being amount of the bill collected and credited in our bank account)		16,400	16,400

*** (15) Journalise the following transaction in the books of Mrunal :**

(a) Bank informed that Aishwarya's acceptance of ₹ 24,000 which was discounted had been dishonoured and bank paid Noting Charges ₹ 220. Bill was renewed at the request of Aishwarya for 2 months with interest of ₹ 480.

(b) Received ₹ 4,630 from private estate of Ankur who was declared insolvent against bill accepted by him for ₹ 6,000.

(c) Accepted a bill of ₹ 15,000 at 3 months drawn by Anushka for the amount due to her ₹ 20,000 and balance paid by cheque.

(d) Dishonoured our acceptance to Vivek ₹ 27,000 and Noting Charges paid by Vivek ₹ 700.

Solution :

In the books of Mrunal

Journal Entries

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
(a) (i)	Aishwarya's A/c Dr. To Bank A/c (Being discounted bill dishonoured)		24,000	24,000
(ii)	Aishwarya's A/c Dr. To Bank A/c (Being noting charges paid and adjusted)		220	220
(iii)	Aishwarya's A/c Dr. To Interest A/c (Being interest amount due)		480	480
(iv)	Bills Receivable A/c Dr. To Aishwarya's A/c (Being new acceptance received from Aishwarya for balance receivable)		24,700	24,700
(b)	Cash A/c Dr. Bad Debts A/c Dr. To Ankur's A/c (Being cash received and write off remaining amount of Ankur)		4,630 1,370	6,000

(c)	Anushka's A/c Dr.		20,000	
	To Bank A/c			5,000
	To Bills Payable A/c			15,000
	(Being our acceptance and cheque given to Anushka against her dues)			
(d)	Bills Payable A/c Dr.		27,000	
	Noting Charges A/c Dr.		700	
	To Vivek's A/c			27,700
	(Being our acceptance dishonoured and Vivek paid noting charges)			

PROBLEMS FOR PRACTICE

Q. 1. Prepare a bill of exchange from the following details :

(A) When payee is a third party different from drawer and drawee.

(1) Drawer : Krishna Hake, 104, Mondha Road, Ambajogai
Drawee : Rahul Kukare, Sister Colony, Chandrapur
Payee : Rajvardhan Patil, Nashik
Amount of bill : ₹ 20,000
Period of bill : 90 days
Date of Bill : 23rd August, 2019
Date of Acceptance : 25th August, 2019

(2) Drawer : Yuvraj Patel, 210, Laxminagar, Surat
Drawee : Krushnakant, Gandhi Chowk, Kalol
Payee : Wasudeorao Dahake, Satara
Amount : ₹ 25,000
Period : Three months
Date of Bill : 29th August, 2020
Date of Acceptance : 1st September, 2020

(3) Drawer : Priti Chavan, Chandika Road, Malvan
Drawee : Snehlata Patil, Prashant Nagar, Ambajogai
Payee : Archana Ghime, Amravati
Amount of Bill : ₹ 20,000
Period : 3 months
Date of Bill : 1st January, 2020
Date of Acceptance : 5th January, 2020

(B) When drawer and payee are the same person

(4) Drawer : Vikas Jagtap, Guruwarpeth, Satara
Drawee : Dadasaheb Kavathekar, Ramnagar, Chaphal
Date of Bill : 1st February, 2018
Period : 3 months
Amount : ₹ 12,000
Accepted on : 3rd February, 2018

(5) Drawer : Mr Avadhoot Raktade 586, Main Road, Ajara
Drawee : Mr Mukund Aglawe 133, Chandni Chowk, Panvel
Amount : ₹ 18,000
Period : Two months
Date of Bill : 1st May, 2017
Date of Acceptance : 5th May, 2017

(C) Qualified acceptance as to amount

(6) Drawer : Shanmukh A. Tawde,
504, Siddhivinayak Annex,
S. J. Road, Lower Parel, Mumbai
Drawee : Ms Kalpana Shah, 156, N.C. Kelkar Road, Dadar (West), Mumbai
Period : 2 months
Amount : ₹ 50,000
Date of bill drawn : 7th February, 2020
Date of bill accepted : Accepted only for ₹ 45,000 on 10th February, 2020

(7) Drawer : Abhilash Patil, M. G. Road, Kokarda.
Drawee : Bhargav Mishra, 140, Civil Lines, Nagpur.
Payee : Gopal Deshpande, Ambajogai.
Amount of bill : ₹ 25,000
Period of bill : 2 months
Date of bill : 23rd August, 2019
Date of acceptance : 25th August, 2019
Accepted for : ₹ 20,000 only

(D) Qualified acceptance as to period

(8) Drawee : Mr Omkar Kadam, 23, Parvati Niwas, Gandhi Nagar, Nashik
Drawer : Ms Priya Rane, 'Surya Mahal', Rajpath, Nagpur
Period : 60 days
Amount : ₹ 50,000
Date of bill : 4th January, 2018
Accepted bill for 90 days on 7th January, 2018.

(9) Drawer : Mr Herman Aranha,
48, M.I.D.C.,
Mahatma Gandhi Road,
Aurangabad
Drawee : Mr Joseph Fernandes,
25, Ready Money Terrace,
Lal Bahadur Shastri Road, Ghatkopar (West), Mumbai
Payee : Mr Jackie Lobo, 24, M.H.B. Colony, Bandra (East), Mumbai
Amount : ₹ 45,000
Period : 3 months
Date of bill : 17th July, 2018
Accepted for 4 months on 20th July, 2018.

Q. 2. Solve the following problems :

Different dealings of bills of exchange by drawer. When bills are honoured by drawee :

(1) Amar gave ₹ 36,500 to Disha as loan and therefore, a bill was drawn by Asha for same amount for 90 days on 15th October, 2020, which was accepted and returned by Nisha on next day. On 18th October, 2020, Asha discounted the bill with her bankers @ 18 % p.a. On the due date, the bill was honoured by Nisha. Draft Journal Entries in the books of both the parties.
[**Ans.** Discount charged by the bank = ₹ 1,620.]

(2) On 1st January, 2020 Kalpana sold goods worth ₹ 60,000 to Parth on credit. Parth gave his acceptance to Kalpana for ₹ 40,000 amount for four months, on next day and balance amount paid in cash under 2 % cash discount. On 4th January, Kalpana endorses the bill in favour of Zalak in full settlement of his debts worth ₹ 44,000. Zalak then discounted the bill with his bankers at a discount of 15 % p.a. On the due date, Parth honoured the bill. Draft Journal Entries in the books of all the parties and show Kalpana's A/c in the ledger of Parth.
[**Ans.** Cash discount given to Parth ₹ 400; Discount charged by bank = ₹ 2,000.]

Dishonour of bills of exchange by drawee and payment and adjustment of noting charges :

(3) On 1st April, 2020 Anil sold goods worth ₹ 80,000 to Sunil on credit. On 2nd April, 2020 Sunil accepted 4 months bill for the same amount and returned it to Anil. Anil then retained the bill with himself till maturity. On the due date, the bill is dishonoured and Anil paid the noting charges ₹ 150 and his bank debited ₹ 75 for bank charges. Pass Journal Entries in the books of Anil and prepare Anil's A/c in the ledger of Sunil.

(4) Vishal drew a bill on Krunal for ₹ 35,000 for 120 days after date on 15th June 2019, which was accepted and returned by Krunal on next day. On 17th June, 2019 Vishal sent the bill to the Bank for collection. However, on due date, the bill is dishonoured by Krunal, noting charges were amounted to ₹ 250 paid by Vishal and his bank had debited his account by ₹ 60 for bank charges. You are required to draft Journal Entries in the books of Vishal and Krunal. Prepare Krunal's A/c in the ledger of Vishal.

Renewal of the Bills of Exchange

(I) When drawee remains solvent

(5) Dolly owes Neena ₹ 84,000. Neena draws a bill for ₹ 84,000 on Dolly for a period of 3 months. Dolly accepts it and returns it to Neena. Neena discounted the bill with her bank at a discount of 16 % p.a. On the due date, the bill was dishonoured and noting charges amounted to ₹ 400 paid by bank. Neena paid in cash the amount due to the bank on dishonour of the bill. Dolly accepted another bill of 3 months drawn by Neena for the balance plus interest ₹ 600. Before one month of the due date of this bill, Dolly paid the amount at a discount of 12 % p.a. to retire the bill. Pass Journal Entries in the books of Neena.

[**Ans.** (1) Discount paid to bank = ₹ 3,360 (2) Second bill is drawn by Neena on Dolly for ₹ 85,000 (3) Rebate given on second bill = ₹ 850.]

(6) Usha purchased goods from Shobha on credit for ₹ 5,000 and accepted a bill drawn by Shobha for four months. Before due date, Usha approached Shobha with a request to renew the bill. Shobha agreed but with the condition that Usha should pay ₹ 3,000 with interest of ₹ 60 and accept a new bill for the balance due. These arrangements were duly carried through. The new bill was met on due date. Pass Journal Entries in the books of Shobha.

[**Ans.** (1) Part payment made by Usha to Shobha = ₹ 3,060 (2) New bill is drawn by Shobha on Usha = ₹ 2,000.]

(7) Anil sold goods to Ravindra for ₹ 6,000. Ravindra accepted Anil's bill for ₹ 6,000 payable after 3 months. After a month, Anil discounted the bill with his bank at 10 % p.a. On the due date, Ravindra dishonoured his acceptance. Ravindra paid ₹ 3,000 to Anil and accepted a fresh bill for 3 months for the balance including interest @ 8 % p.a. Anil sent the bill to bank for collection. On due date, Ravindra honoured the bill.

Pass Journal Entries in the books of Anil.

[**Ans.** (1) Discount charged on 1st bill = ₹ 100 (for 2 months) (2) Interest charged on balance amount of ₹ 3,000 by Anil on Ravindra (for 3 months) = ₹ 60 (3) New bill is drawn by Anil on Ravindra = ₹ 3,060.]

Journal and Ledger

(8) Vicky owes ₹ 12,000 to Bunty and accepts 3 months' bill drawn by Bunty who discounts the same after a month at 10 % p.a. with his bank.

On due date the bill has been dishonoured and noting charges amounted to ₹ 100.

Vicky then paid 25 % of the amount of the bill and full amount of noting charges by crossed cheque and accepted a new bill for the balance plus interest at 12 % p.a. for 3 months.

New bill was sent to the bank for collection by Bunty. On due date the bank collected the amount of the new bill from Vicky and debited the bank charges ₹ 70 to Bunty's account.

Pass Journal Entries in the books of Bunty and Bunty's account in the ledger of Vicky.

[**Ans.** (1) Discount charged by the bank = ₹ 200. (2) Amount paid by Vicky along with noting charges = ₹ 3,100. (3) Interest charged by Bunty = ₹ 270. (4) New bill accepted by Vicky = ₹ 9,270. (5) Amount credited to Bunty's A/c on collection of bill amount by bank = ₹ 9,200.]

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(9) Shridhar owed ₹ 24,000 to Giridhar, hence accepted a bill drawn on him by Giridhar at 3 months on 12th March, 2018. On the same date, Giridhar endorsed it to Murlidhar.

On 12th June, 2018 Shridhar requested Giridhar for the renewal of the bill. Giridhar agreed on the condition that Shridhar should pay half the amount due immediately by cheque and should accept a bill for the balance along with interest @ 10 % p.a. for 2 months.

These arrangements were carried through. On the same date, Giridhar sent the new bill to the bank for collection. On the due date, the new bill was honoured and bank charges debited were ₹ 100.

Give journal entries and show Shridhar's A/c in the books of Giridhar.

[**Ans.** (1) Amount received by Giridhar as part payment from Shridhar = ₹ 12,000. (2) Interest charged on Shridhar on balance amount due = ₹ 200. (3) Amount of new bill = ₹ 12,200. (4) Amount credited to Giridhar's bank A/c on collection of bill = ₹ 12,100.]

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(10) Mr Amol draws a bill on Mr Atul for ₹ 14,000 at 3 months. Mr Atul accepts the bill. The bill is sent to bank for collection on maturity. Atul finds himself unable to make payment of the bill and requests Amol to renew it. Amol accepts the proposal on the condition that Atul should pay ₹ 7,000 in cash along with interest of ₹ 100 and accept a new bill at one month for the balance. These arrangements were carried through. Afterwards Atul retired the bill by paying ₹ 6,950.

Give Journal Entries and show Atul's A/c in the books of Amol.

[**Ans.** (1) ₹ 7,100 paid by Atul to Amol as part payment and interest due (2) New bill is drawn by Amol on Atul = ₹ 7,000 (3) Rebate given on retirement of the second bill = ₹ 50.]

(II) When drawee becomes insolvent

Journal of Drawer

(11) Priti owed to Manisha ₹ 9,000. Priti accepted the bill drawn by Manisha for the amount at 4 months. Manisha endorsed the same bill to Shital.

Before the due date, Priti approached Manisha for renewal of the bill. Manisha agreed on the condition that ₹ 3,000 be paid immediately together with interest on the remaining amount at 8 % p.a. for 3 months and Priti should accept a new bill.

These arrangements were carried through. However, before due date Priti became insolvent and only 50 % of the amount could be recovered from her estate.

Give Journal Entries in the books of Manisha.

[**Ans.** (1) Balance due after part payment = ₹ 6,000 (2) Interest charged on the balance amount = ₹ 120 (3) Amount of New bill = ₹ 6,000 (4) Amount recovered by Manisha = ₹ 3,000 and Bad debts incurred by Manisha = ₹ 3,000.]

(12) Sayali sold goods on credit to Manali for ₹ 40,000. Sayali draws a bill on Manali for 4 months for the amount due. Manali accepted the bill and returned it to Sayali. After a month, Sayali discounted the bill with her bank at 12 % p.a.

On the due date, bank informed that the bill is dishonoured and bank paid the noting charges ₹ 300. Manali requested Sayali to renew the bill. Sayali agreed on conditions that Manali should pay ₹ 20,000 in cash along with noting charges and accept a new bill for the balance amount with interest at 15 % p.a. for 3 months.

These arrangements were carried through. Before the due date Manali was declared insolvent and only 40 % of the amount due could be recovered from her private estate as final dividend.

Give Journal Entries in the books of Sayali.

[**Ans.** (1) Discount charged by the bank = ₹ 1,200 (2) Payment made by Manali to Sayali = ₹ 20,300 (3) Interest charged by Sayali on Balance amount due = ₹ 750 (4) Amount of the new bill = ₹ 20,750 (5) Amount recovered by Sayali from Manali = ₹ 8,300 (6) Bad debts incurred by Sayali = ₹ 12,450 (7) Journal total = ₹ 2,67,432.]

Journal of Drawee

(13) On 1st June, 2020, Mr Dhamanekar bought goods from Mr Pednekar for ₹ 40,000. Dhamanekar accepted the bill for the amount for three months' period. Pednekar then endorsed the bill to Mr Desai. On due date, Mr Desai informed Pednekar that the bill was dishonoured and ₹ 200 was paid as noting charges. Pednekar then drew a new bill on Dhamanekar for the balance amount including noting charges and interest at 12 % p.a. for three months. Before the due date, Dhamanekar became insolvent and only 1 / 3 of the amount due was recovered from his estate as first and final dividend.

Pass Journal Entries in the books of Mr Dhamanekar.

[**Ans.** (1) Interest charged by Mr Pednekar = ₹ 1,206. Interest is charged on ₹ 40,200 (including noting charges). (2) New bill accepted by Dhamanekar = ₹ 41,406. (3) Cash recovered by Mr Pednekar on insolvency of Mr Dhamanekar = ₹ 13,802 and Bad debts incurred by Mr Pednekar = ₹ 27,604.]

Journal of Drawee and Ledger of Drawer

(14) Madhav accepted a bill of ₹ 40,000 drawn by Kashinath at 3 months. Kashinath got the bill discounted with his bank for ₹ 39,000. Before the due date, Madhav approached Kashinath for renewal of the bill. It was agreed to pay ₹ 30,000 immediately together with interest on the remaining amount at 10 % p.a. for 3 months and for the balance Madhav accepted a new bill for 3 months. These arrangements were carried through. But afterwards Madhav became insolvent. Only 35 % of the amount could be recovered from his estate.

(A) Pass necessary Journal Entries in the books of 'Madhav' and (B) Prepare Madhav's A/c in the books of 'Kashinath'.

[**Ans.** (1) Balance amount due to Kashinath after part payment = ₹ 10,000 (2) Interest due on Balance amount = ₹ 250 (3) Amount of new bill = ₹ 10,000 (4) Amount paid to Kashinath in final settlement = ₹ 3,500 and deficiency suffered = ₹ 6,500.]

One Drawer and Multiple Drawees

(15) Journalise the following transactions in the books of Jaydeep.

(a) Arvind renews his acceptance of Jaydeep of ₹ 7,000 with interest ₹ 500 for two months.

(b) Bank informed Jaydeep that Mahadev's acceptance of ₹ 4,000 which was discounted and dishonoured. Bank charged noting charges ₹ 80.

(c) Hanumant informed Jaydeep that Kazi's acceptance for ₹ 7,000 endorsed to Hanumant has been dishonoured, noting charges ₹ 85.

(d) Datta honoured his acceptance of ₹ 4,900, which was sent to bank for collection. Bank debited ₹ 100 for bank charges.

(e) Radhika retired her acceptance to Jaydeep of ₹ 9,000 paying ₹ 8,700.

[**Ans.** (a) New bill drafted for ₹ 7,500 (e) Rebate given by Jaydeep to Radhika = ₹ 300.]

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(16) Journalise the following transactions in the books of Mr Manoj Patil.

(a) On 1st January, 2015, Vaishali renewed her acceptance to Mr Manoj Patil for ₹ 22,400 by paying ₹ 12,000 in cash and accepting a fresh bill for the balance with interest @ 12 % p.a. for three months.

(b) On 1st February, 2015, Sadashiv was declared bankrupt, who had accepted Mr Manoj Patil's bill of ₹ 28,000 and only 45 % of the amount due could be recovered from Sadashiv's estate.

(c) On 1st March, 2015, Mahadev retired his acceptance to Mr Manoj Patil for ₹ 12,000 by paying ₹ 11,940.

(d) Raju's acceptance to Mr Manoj Patil for ₹ 5,750 endorsed to Bharati in full settlement of her amount for ₹ 6,000 on 31st March, 2015.

[**Ans.** (a) Balance amount receivable from Vaishali after part payment = ₹ 10,400; Interest charged by Mr Manoj Patil on balance amount due from Vaishali = ₹ 312; New bill drafted for ₹ 10,712. (b) Amount recovered from Sadashiv = ₹ 12,600; Bad debts = ₹ 15,400. (c) Rebate given to Mahadev = ₹ 60. (d) Discount given by Bharati = ₹ 250.]

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(17) Journalise the following transactions in the books of 'Avadhoot' :

(a) Nandini informs Avadhoot that Nisha's acceptance for ₹ 5,000 endorsed to Nandini has been dishonoured. Noting charges amounted to ₹ 100.

(b) Dhanashri renews her acceptance to Avadhoot for ₹ 2,400 by paying ₹ 1,200 in cash and accepting a new bill for the balance plus interest at 12 % p.a. for 3 months.

(c) Honagekar's acceptance to Avadhoot ₹ 6,000 retired one month before its due date at a discount of 20 % p.a.

(d) Bank informs to Avadhoot that the dishonour of Shashikala's acceptance for ₹ 4,000 discounted with the bank. Noting charges amounted to ₹ 70.

(e) Avadhoot sent a bill of Pravin for ₹ 6,000 to the bank for collection.

[**Ans.** (b) (1) Balance amount due from Dhanashri = ₹ 1,200 (2) Interest charged on balance amount = ₹ 36 (3) Amount of new bill = ₹ 1,236. (c) Rebate given by Avadhoot to Honagekar on retirement of bill = ₹ 100.]

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8 COMPANY ACCOUNTS : ISSUE OF SHARES

SYLLABUS

(Accounting of Shares)

- **8.1** Share and Share Capital :
    - **8.1.1** Meaning and Definition
    - **8.1.2** Types of Shares
    - **8.1.3** Treatment of Share Capital in Company Balance Sheet (Horizontal Form)
- **8.2** Accounting for Share Capital
    - **8.2.1** Public Issue of Shares
    - **8.2.2** Basic Accounting Entries for Issue of Shares
    - **8.2.3** Issue of Share at Par, Premium and Discount
    - **8.2.4** Over Subscription and Under Subscription
    - **8.2.5** Calls-in-Advance and Calls-in-Arrears
    - **8.2.6** Issue of Shares for Consideration other than Cash
- **8.3** Accounting Treatment for
    - **8.3.1** Forfeiture of Shares
    - **8.3.2** Re-issue of Forfeited Shares

BRIEF OVERVIEW

8.1 Share and Share Capital :

Introduction : As the volume and scale of trade and industry expanded, especially after the Industrial Revolution (i.e. around 1760), a very large unit of commercial organisation requiring large capital and greater managerial skill called joint stock company came into existence rapidly. The company fulfils its need of large amount of capital from large number of investors called shareholders. The company raises its capital in the form of shares and debentures. The capital collected through issue of shares is called "Owned Capital" and capital collected by issue of debentures is called "Borrowed Capital".

8.1.1 Meaning and Definition :

The owned capital of a company, when divided into a large number of small parts having equal face value is called a Share. According to Section 2(84) of the Indian Companies Act, 2013, *"Share means share in the share capital of the company and includes stock except where a distinction between stock and share is expressed or implied."*

A share is a unit of measurement of the share capital of a company. For instance, a capital of ₹ 2 crore may be divided into 20 lakh shares of ₹ 10 each.

According to the provisions made under Section 86 of the Companies Act 1956, now company is authorised to issue two types of shares viz. (i) Equity Shares and (ii) Preference Shares.

(i) Equity or Ordinary Shares : The shares other than preference shares are called Equity or Ordinary Shares. In other words, an equity share is the one which has no special preferential right as to dividend or repayment of capital. They participate in the profits of the company after all preferential rights have been satisfied. They are risk bearer and real owners of the company. They get the dividend after payment of all expenses and dividend to preference share holders. An equity shareholder has normal voting rights and a right to participate in the management.

(ii) Preference Shares : According to provisions of the Companies Act 2013, a 'Preference Share', is a type of share which enjoys priority or preference over equity share for the payment of dividend at a predetermined fixed rate and for repayment of capital. It means preference shareholders are paid dividend at a predetermined fixed rate before any dividend is paid to the equity shareholders. Similarly, in the case of the winding up of the company, preference share capital is refunded first.

- **Types of Preference Shares :** The different types of preference shares are :
  (1) Cumulative and Non-cumulative Preference Shares
  (2) Redeemable and Irredeemable Preference Shares
  (3) Participating and Non-participating Preference Shares
  (4) Convertible and Non-convertible Preference Shares

8.1.2 Types of Share Capital :

The different types of share capital are explained below :

(1) Authorised / Registered / Nominal Capital : This is the maximum limit up to which a company is authorised to raise share capital. It is mentioned in the capital clause of the Memorandum of Association. Authorised capital is determined by considering future financial requirements of the company. It is also called 'Registered Capital' or 'Nominal Capital'. It can, however, be increased subsequently by altering capital clause of the Memorandum of Association.

(2) Issued Capital : It is that part of the authorised capital which is issued or offered for subscription to the public. The company issues shares as and when it needs additional capital. Issued capital also includes the nominal value of shares issued by the company to the public for cash, bonus shares, promoters of the company and vendors other than cash. The part of the authorised capital which is not yet issued to the public is called Unissued Capital.

(3) Subscribed Share Capital : It is that part of the issued capital which the company has actually received by way of application from the public and also allotted by the Company. It is the total amount of the face value of the number of shares applied for. Subscribed share capital also covers the face value of shares issued by the company for consideration other than cash. The part of the issued capital which is not subscribed by the public is called Unsubscribed Capital.

(4) Called-up Share Capital : The company collects the capital in instalments payable on application, allotment, first call, second call, etc. Called-up share capital is that part of the subscribed capital which is demanded (called-up) by the company from the applicants of the shares. The part of the subscribed capital which is not yet called up by the company is called Uncalled Capital.

(5) Paid-up Share Capital : All the shareholders may not pay the entire amount called-up by the company. That part of the called-up capital which is actually paid by the shareholders is called paid-up share capital. It may be equal to or less than called-up share capital. The difference between called up capital and paid up capital is known as Calls-in-Arrears.

(6) Reserve Capital : According to provisions made under the Companies Act, 2013, a company may maintain reserve capital by passing a special resolution. Reserve share capital is that part of the subscribed capital which is reserved to be called-up only at the time of winding up or liquidation of the company. It is created to offer additional security to the creditors.

8.1.3 Treatment of Share Capital in Balance Sheet :

Example : ABC Co. Ltd. is formed with an authorised capital of ₹ 10,00,000 divided into 1,00,000 equity shares of ₹ 10 each. The company offers 80,000 shares to the public and out of these only 60,000 shares are applied and allotted to the public. ₹ 2 is payable on application and ₹ 3 on allotment. The balance is yet to be called. All the money called up is duly received with the exception of allotment money on 1,000 shares.

You are required to calculate authorised, issued, subscribed, called-up and paid-up share capital and also calls in arrears and uncalled capital.

Solution :

Particulars	Amount (₹)	Amount (₹)
Authorised share capital 1,00,000 equity shares of ₹ 10 each		10,00,000
Issued share capital 80,000 equity shares of ₹ 10 each		8,00,000
Subscribed share capital 60,000 equity shares of ₹ 10 each		6,00,000
Called-up capital 60,000 equity shares of ₹ 5 each (3 + 2)		3,00,000
Paid-up capital 60,000 equity shares of ₹ 10 each ₹ 5 called-up	3,00,000	
Less : Calls-in-Arrears 1,000 equity shares of ₹ 3 each	3,000	2,97,000
Calls-in-Arrears 1,000 equity shares of ₹ 3 each		3,000
Uncalled share capital 60,000 equity shares of ₹ 5 each		3,00,000

Balance Sheet as on 31st March, ...

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Authorised capital 1,00,000 equity shares of ₹ 10 each		10,00,000	Cash at Bank		2,97,000
Issued capital 80,000 equity share of ₹ 10 each	8,00,000				
Subscribed capital 60,000 equity shares of ₹ 10 each	6,00,000				
Called-up capital 60,000 equity shares of ₹ 5 each	3,00,000				
Less : Calls-in-Arrears 1,000 equity shares of ₹ 3 each	3,000				
Paid-up equity share capital		2,97,000			
		2,97,000			2,97,000

- **Types / Methods of Issue of share capital :**

(1) Right issue to equity shareholders (sec. 62)

(2) Employee stock option scheme (sec. 62 (1)(b))

(3) To Any person (sec. 62 (1) (c))
  (a) Private placement of shares (sec. 42)
  (b) Public issue of shares
  (c) Sweat Equity shares (sec. 54)

(4) Issue of Bonus shares to members / shareholders (sec. 63 (1))

All the above mention methods of issue of shares capital is commonly acceptable by private company and public company.

(1) Right Issue to Equity Shareholders :

Meaning : Right issue of equity shares issued by the company in which existing shareholders are given priority or right of purchasing right issue shares. And also existing shareholders may get right issue shares at discounted price.

→ Same accounting entries are to be passed in the books of company as those for issue of ordinary shares to the public.

(2) Employees Stock Option Scheme :

Meaning : When company issue shares to its employees at a price lower than market price for the encouragement of employees to acquire ownership in the form of shares is known as Employees stock option scheme.

→ New accounts like Employees Compensation Expense account, Deferred Employees Compensation Expense account, etc. are opened. Based on fair value and intrinsic value of option, Accounting value is found out.

(3) (a) Private Placement of Shares :

Meaning : Direct private offering of the company's securities to a selected group of sophisticated investors.

→ Private placement is governed through SEBI.

→ It is less expensive and less time consuming process.

(b) Public Offer :

Meaning : Public offer of shares implies selling of shares which are listed on stock exchange directly to public by issue of prospectus.

→ Through IPO capital collected is recorded as stockholder equity in the Balance Sheet.

(c) Sweat Equity Shares :

Meaning : When equity shares are issued by a company to its directors or employees at a discount or for any consideration other than cash, for any obligation of either side etc. is known as sweat equity shares. (Section 2(88) of the companies Act, 2013)

→ If the consideration is not by the way of cash, then it can be carried to the Balance Sheet of the company as per accounting standards.

(4) Issue of Bonus Shares :

Meaning : When company distributed equity shares to its current shareholders as fully paid, without any charge, then it is known as bonus shares.

→ Amount of Bonus shares transferred from different reserve to equity share capital.

8.2. Accounting for Share Capital :

8.1.2 Public Issue of Shares

This is one of the important methods of issue of shares in primary market where new and first hand securities like shares and debentures are sold. Public issue of shares implies selling shares directly to public by issue of prospectus. Under this method issuing company makes direct appeal to the public or prospective investors to buy its shares. The procedure adopted by the issuing company to subscribe its shares is stated as follows :

(1) Issue of Prospectus : Under this method, the issuing company invites the prospective investors or the public to make an offer to purchase its shares through a prospectus. The prospectus gives details of number of shares offered to the public, the face value of shares and amount to be paid on application, allotment and calls.

(2) Receipt of Application : An offer made by the prospective investors to buy the shares is called an application. According to Section 39 (2) of the Companies Act, 2013, a company must receive at least 5 % of the nominal of face value of each share applied for or such other percentage or amount as may be indicated by SEBI. While calculating the amount of application money, premium and discount should not be taken into account. The company makes its application forms available to the public through its brokers and banks. All the money received on application for shares must be deposited in a scheduled bank.

(3) Allotment of Shares : The allotment of shares means distribution to the applicants all or certain number of shares in response to their applications. A company is allowed to make allotment of shares only after receiving **minimum subscription amount of 90 % of the issued amount** within **60 days from the date of closure of issue**. If the company accepts the applications, it issues letter of allotment to the applicants and in case of rejection of shares it issues letter of regret to the applicants and the application money is refunded to the applicants.

(4) Calls on Shares : Call on shares is a request or demand made by the company to its shareholders to pay the whole or part of unpaid balance on shares held by them. There may be 1st call and 2nd and final call. The maximum amount of call per share should not exceed 25 % of the face value of the share. For instance, if the face value of the share is ₹ 10, the amount of a call should not exceed ₹ 2.50 at a time. A minimum notice of 14 days should be issued by the company to the members for the payment of call.

- **Pro Forma Journal Entries for Accounting of Issue of Equity Shares :**

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
(1)	On receipt of application money :				
	Bank A/c	Dr.		XXX	
	To Equity Share Application A/c				XXX
	(Being application money received)				
(2)	Transfer of application money to share capital :				
	Equity Share Application A/c	Dr.		XXX	
	To Equity Share Capital A/c				XXX
	(Being application money transferred to Equity share capital)				
(3)	Allotment of shares is made :				
	Equity Share Allotment A/c	Dr.		XXX	
	To Equity Share Capital A/c				XXX
	(Being allotment of ₹ .... per share made)				
(4)	Allotment money received :				
	Bank A/c	Dr.		XXX	
	To Equity Share Allotment A/c				XXX
	(Being allotment money received)				

(5)	Amount due on 1st call :			
	Equity Share First call A/c Dr.		XXX	
	To Equity Share Capital A/c			XXX
	(Being first call of ₹ .... per share made)			
(6)	Receipt of first call money :			
	Bank A/c Dr.		XXX	
	To Equity Share First Call A/c			XXX
	(Being first call money received from shareholders)			
(7)	Amount due on Second call :			
	Equity Share Second Call A/c Dr.		XXX	
	To Equity Share Capital A/c			XXX
	(Being second call of ₹ .... per share made)			
(8)	On receipt of second call money :			
	Bank A/c Dr.		XXX	
	To Equity Share Second Call A/c			XXX
	(Being money due on second call received)			
(9)	Amount due on Third and Final call :			
	Equity Share Third and Final Call A/c Dr.		XXX	
	To Equity Share Capital A/c			XXX
	(Being third and final call of ₹ .... per share made)			
(10)	Receipt of Third and Final call money :			
	Bank A/c Dr.		XXX	
	To Equity Share Third and Final Call A/c			XXX
	(Being money due on Third & Final Call received from shareholders)			

8.3 Issue of Shares at Par, Discount and Premium :

The value or price which is fixed for each share by the company is called face value. It is specified in the Memorandum of Association of the company. The value or price at which a company decides to sell its shares is called issue price which is different from its face value. Shares may be issued by the company to the public either at par or at a premium or at a discount.

- **Issue of Shares at Par :** Shares are said to be issued at par when they are issued at their face value.

Example : When a share of ₹ 10 is issued at ₹ 10 only, it is said to be issued at par.

- **Issue of Shares at a Discount :** Shares are said to be issued at a discount when they are issued at a price, less than their face value.

Example : When a share of ₹ 10 is issued at ₹ 9, it is said to be issued at a discount. In this case the difference between the face value and actual selling price is called the amount of discount, i.e. ₹ 10 – ₹ 9 = ₹ 1.

Pro forma journal entry for issue of shares at a discount :

When a discount is allowed at the time of share allotment :

Share allotment A/c	Dr.	XXX	
Discount on Issue of Shares A/c	Dr.	XXX	
To Share Capital A/c			XXX

Note : (i) Discount on issue of shares is a capital loss to the company. Hence it is shown on the assets side of Balance Sheet under the head "Miscellaneous Expenditure" as "Discount on Issue of Shares".

(ii) As per new provision of government Act (2013), Public issue of shares cannot be at a discount.

- **Issue of Shares at a Premium :** Shares are said to be issued at a premium when the shareholders are required to pay a price higher than the face value of the shares. The difference between the issue price and the face value is called the premium. For example, if a share whose face value is ₹ 10 is issued by the company at ₹ 50 the share is said to be issued at a premium of ₹ 40. Section 78 of the Companies Act, 1956, provides that the premium amount collected by the company must be deposited into a separate account called Share Premium Account. It is considered as capital gain. Share premium amount must be disclosed separately in the Balance Sheet of the company.

The share premium amount should be used for the following purposes :

(1) Premium amount cannot be paid as dividend to a shareholders. However, premium amount may be capitalised by the company by issuing fully paid bonus shares free of charge at a *pro-rata* basis to the existing equity shareholders.

(2) The amount received as premium is required to be deposited in a separate Bank Account called Share Premium Account.

(3) To write off the preliminary expenses of the company.

(4) To write off the expenses paid, commission paid or discount allowed on any issue of shares or debentures of the company.

(5) To provide for the premium payable on the redemption (repayment) of the redeemable preference shares or debentures of a company.

(6) To buy back its own shares.

- **Pro Forma Journal Entries for Issue of Shares on Premium :**

(1) When premium amount is called by company with application money :

Share Application A/c	Dr.	XXX	
To Share Capital A/c			XXX
To Securities Premium A/c			XXX

(Being money received with application transferred to Share Capital A/c and Securities Premium A/c)

(2) If premium amount is called with allotment money :

Share Allotment A/c	Dr.	XXX	
To Share Capital A/c			XXX
To Securities Premium A/c			XXX

(Being share allotment money and premium amount due from shareholders)

8.4 Over Subscription and Under Subscription :

Over Subscription : When a company is in receipt of shares more than those actually offered or issued to the public, the issue is said to be over-subscribed. In case of over subscription, the company allots the shares by selecting any one of the following methods :

(i) Lottery method (ii) Pro-rata method (iii) Firm allotment method and (iv) Datewise method.

In the recent era most of the companies adopt pro-rata method to allot the shares. Under pro-rata method each applicant is allotted shares in proportion to the number of shares applied for by him.

Under Subscription : When a company is in receipt of applications for shares less than those actually offered or to be issued to the public, the issue is said to be under subscribed.

Full Subscription : When a company is in receipt of applications for shares equal to those actually issued to the public, the issue is said to be fully subscribed.

- **Pro Forma Journal Entries for Over Subscription :**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
(1)	Receipt of application money :			
	Bank A/c Dr.		XXX	
	To Share Application A/c			XXX
	(Being application money ₹ .... per share received from applicant)			
(2)	Transfer of money on application :			
	Share Application A/c Dr.		XXX	
	To Share Capital A/c			XXX
	To Bank A/c			XXX
	(Being application money transferred to share capital and application money received on excess shares refunded)			
(3)	Amount due on allotment :			
	Share Allotment A/c Dr.		XXX	
	To Share Capital A/c			XXX
	(Being allotment money ₹ .... per share due from shareholders)			
(4)	Allotment money received :			
	Bank A/c Dr.		XXX	
	To Share Allotment A/c			XXX
	(Being allotment money received from shareholders)			

Pro-rata / Proportionate Allotment :

When the number of shares applied for, is more than the number of shares issued, then directors proportionately issued shares on the basis of total shares application received and the number of shares issued. Under this circumstances, each applicant gets the shares less than those demanded or applied by him. In other way, directors can reject certain excess applications and refund their money and can allow full shares to some applicants and make pro-rata allotment to other where excess application money received adjusted with allotment money demanded.

- **Journal Entries :**

(i) Equity Shares Application A/c Dr.
To Equity Share Allotment A/c

OR

(ii) Equity Shares Application A/c Dr.
To Equity Share Capital A/c
To Equity Share Allotment A/c
(Being excess application money adjusted with allotment money)

8.5 Calls-in-Advance and Calls-in-Arrears :

Calls-in-Arrears : On account of several reasons, some shareholders fail to pay allotment or call money inspite of reminders sent to them. Such unpaid instalments are called Calls-in-Arrears. It is also called Unpaid Calls. Calls-in-Arrears represent the amount due but not yet collected from shareholders.

It is deducted from the called-up capital. The balancing amount represents paid-up capital. Paid-up capital is shown in the Balance Sheet. The defaulter shareholders are required to pay interest on the unpaid call amount at the rate of 5 % per annum for the period from the due date to the date of payment of such call amount. Usually provisions made in Articles of Association empower the directors to charge interest on the amount of Calls-in-Arrears.

- **Pro Forma Journal Entries of Calls-in-Arrears :**

(1) Entry to record calls-in-arrears :

Calls-in-Arrears A/c	Dr.	XXX	
To Share Allotment A/c			XXX
To Share Calls A/c			XXX
(Being share allotment money and call money still outstanding)			

(2) Interest due on calls-in-arrears :

Shareholders A/c	Dr.	XXX	
To Interest on Calls-in-Arrears A/c			XXX
(Being interest on unpaid calls due)			

(3) Receipt of interest :

Bank A/c	Dr.	XXX	
To Shareholders A/c			XXX
(Being interest on outstanding calls received from shareholders)			

Calls-in-Advance : A company may receive the money in advance from the shareholders, on the calls yet to be made. Calls-in-Advance is accepted by the company only when Articles of Association authorise the company to do so. As per Table 'A', a company is required to pay interest at the rate of 6 % per annum on the amount received in advance to the shareholders. At the end of the accounting the balance appearing in the Calls-in-Advance Account is shown in the Balance Sheet under the head 'Share Capital'. However it is not added to share capital.

- **Pro Forma Journal Entries of Calls-in-Advance :**

(1) Receipt of call-in-advance :

Bank A/c	Dr.	XXX	
To Calls-in-Advance A/c			XXX
(Being amount received for Calls-in-Advance)			

(2) Adjustment of calls in advance :

Calls-in-Advance A/c	Dr.	XXX	
To Relevant Call A/c			XXX
(Being amount of calls in advance adjusted)			

(3) Interest due on calls-in-advance :

Interest on Calls-in-Advance A/c	Dr.	XXX	
To Shareholders A/c			XXX
(Being interest due to shareholders)			

(4) On payment of interest on the amount of calls-in-advance :

Shareholders A/c	Dr.	XXX	
To Bank A/c			XXX
(Being interest amount paid to shareholders)			

(5) Transfer of interest on calls-in-advance to Profit and Loss A/c :

Profit and Loss A/c	Dr.	XXX	
To Interest on Calls-in-Advance A/c			XXX
(Being interest transferred to Profit and Loss A/c)			

8.6 Issue of Shares for Consideration other than Cash :

Many times a company may purchase some fixed assets such as building, machinery, furniture, etc., and pay purchase consideration to the vendor partly in cash and partly in the form of fully paid equity shares. It may also take over the business of partnership firm or other company and pay purchase consideration partly or fully in the form of fully paid-up shares.

• Pro Forma Journal Entries for Issue of Shares for Consideration Other than Cash :

(1) Purchase of fixed assets :

Fixed Assets A/c	Dr.	XXX	
To Liabilities A/c			XXX
To Vendor's A/c			XXX
(Being assets and liabilities taken over at agreed values and balance amount payable to vendor)			

(2) Purchase consideration paid to vendor :

Vendor's A/c	Dr.	XXX	
To Share Capital A/c			XXX
To Securities Premium A/c			XXX
(Being purchase consideration paid by issue of fully paid shares at premium)			

• Allotment / issue of Shares to Promoters :

Sometimes a company compensates its promoters for their meritorious services by issuing its shares to them without receiving any payment. The full amount of these shares is regarded on the cost of goodwill. Entry is passed just same as purchase of any asset for consideration of shares :

Goodwill A/c	Dr.	XXX	
To Share Capital A/c			XXX
(Allotment of --------- share of ₹ --------- each fully paid to promoters)			

8.3 Accounting Treatment for :

8.3.1 Forfeiture of Shares :

When a shareholder fails to pay the call money or premium on the shares in spite of repeated reminders and warnings, the company forfeits the shares of such defaulters by passing an appropriate resolution in a Board Meeting. Forfeiture means *the compulsory termination of membership and the confiscation (taking possession by law) of the shares of defaulting members by way of penalty for the non-payment of a fixed instalment, call or premium*. The Articles of Association of a company, therefore, can empower the Board of Directors of the company to forfeit the shares in case of non-payment of call money. The amount of forfeited shares is transferred to a separate account known as Forfeited Shares Account in the books of accounts of the company. At the end of the accouting year, the balance of Forfeited Shares Account is shown on the Liabilities of Balance Sheet under the heading 'Share Capital'.

Pro Forma Journal Entries of Forfeiture of Shares and Re-issue of Forfeiture :

(1) Forfeiture of shares issued at par :

Share Capital A/c	Dr.	XXX	
To Share Allotment A/c			XXX
To First / Second / Third Final Call A/c			XXX
To Calls-in-Arrears A/c			XXX
To Share Forfeiture A/c			XXX
(Being shares forfeited for non-payment of 1st or 2nd or Third final call money)			

(2) For forfeiture of shares issued at premium :

Share Capital A/c	Dr.	XXX	
Share Premium A/c	Dr.	XXX	
To Share Allotment A/c			XXX
To First/Second/Final Call A/c			XXX
To Calls-in-Arrears A/c			XXX
To Share Forfeiture A/c			XXX
(Being share forfeited for non-payment of 1st/2nd/final call money)			

(3) For forfeiture of shares issued at discount :

Share Capital A/c	Dr.	XXX	
To Share Allotment A/c			XXX
To First / Second / Final Call A/c			XXX
To Discount on Issue of Shares A/c			XXX
To Share Forfeiture A/c			XXX
(Being shares forfeited for non-payment of allotment / First / Second / Final call money)			

(4) For re-issue of forfeited shares at par :

Bank A/c	Dr.	XXX	
To Share Capital A/c			XXX
(Being forfeited shares re-issued at par)			

(5) For re-issue of forfeited shares at premium :

Bank A/c	Dr.	XXX	
To Share Capital A/c			XXX
To Share Premium A/c			XXX
(Being forfeited shares re-issued at premium)			

(6) For re-issue of forfeited shares at discount :

Bank A/c	Dr.	XXX	
Share Forfeiture A/c	Dr.	XXX	
To Share Capital A/c			XXX
(Being forfeited shares re-issued at discount)			

(7) For transfer of Share Forfeited A/c :

Share Forfeiture A/c	Dr.	XXX	
To Capital Reserve A/c			XXX
(Being balance in Share forfeiture A/c transferred to Capital Reserve A/c)			

8.3.2 Re-issue of Forfeited Shares :

Forfeited shares remain in the custody of company and become the property of the company. Hence, forfeited shares can be resold by the company at any price. Usually they are sold through auction. They cannot be allotted to the public.

(1) The issuing company should see that loss incurred on re-issue of forfeited shares should not exceed the forfeited amount.

(2) If the loss incurred on re-issue of forfeited shares is less than the amount so forfeited, the surplus supposed to be transferred to 'Capital Reserve Account'.

(3) If the loss incurred on re-issue of forfeited share is greater than the amount so forfeited, the deficit or loss is required to be transferred and debited to 'Forfeited Shares Account'.

(4) If forfeited shares are re-issued at premium, the excess amount so received is to be credited to 'Share Premium Account'.

(5) If forfeited shares originally issued at discount are re-issued at loss, the loss incurred on issue of shares originally at discount is to be debited to 'Discount on Issue of Shares Account' and the loss incurred on re-issue of shares is to be debited to 'Forfeited Shares Account'.

(6) If the total of the amount of forfeiture and amount received on re-issue of shares exceed the face value of the shares re-issued, such surplus amount is required to be transferred to 'Capital Reserve Account'.

SOLVED PROBLEMS

1. Kandla Co. Ltd. made an issue of 80,000 equity shares of ₹ 20 each payable as follows :

Application	: ₹ 5 per share	Allotment	: ₹ 10 per share
First Call	: ₹ 3 per share	Second and Final Call	: ₹ 2 per share

The company received applications for 90,000 shares of which applications for 10,000 shares were rejected and money refunded. All the shareholders paid upto second call except Sachin, the allotee of 4,000 Shares, failed to pay final call.

Pass Journal Entries for the above transaction in the books of Kandla Co. Ltd.

Solution : **Journal Entries in a books of KANDLA CO. LTD.**

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
1	Bank A/c Dr.		4,50,000	
	To Equity Share Application A/c			4,50,000
	(Being application money ₹ 5 per share received on 90,000 shares)			
2	Equity Share Application A/c Dr.		4,50,000	
	To Equity Share Capital A/c			4,00,000
	To Bank A/c			50,000
	(Being application money transferred to Share Capital A/c and application money on rejected shares refunded)			

3	Equity Share Allotment A/c Dr. To Equity Share Capital A/c (Being allotment money ₹ 10 per share due on 80,000 equity shares)		8,00,000	 8,00,000
4	Bank A/c Dr. To Equity Share Allotment A/c (Being allotment money due on equity shares received)		8,00,000	 8,00,000
5	Equity Share First Call A/c Dr. To Equity Share Capital A/c (Being first call money ₹ 3 per share due on 80,000 equity shares)		2,40,000	 2,40,000
6	Bank A/c Dr. To Equity Share First Call A/c (Being first call money received on all 80,000 equity shares)		2,40,000	 2,40,000
7	Equity Share Second and Final Call A/c Dr. To Equity Share Capital A/c (Being second and final call money ₹ 2 per share due on 80,000 shares)		1,60,000	 1,60,000
8	Bank A/c Dr. To Share Second and Final Call A/c (Being second and final call received on all shares except 4,000 equity shares)		1,52,000	 1,52,000
9	Equity Shares Calls-in-Arrears A/c Dr. To Equity Share Second and Final Call A/c (Being unpaid amount transferred to Calls-in-Arrears A/c)		8,000	 8,000

2. Vraj Ltd. issued 20,000 equity shares of ₹ 20 each payable as follows :

On Application : ₹ 4	On Allotment : ₹ 6
On First Call : ₹ 6	On Second Call : ₹ 4

The company received applications for 25,000 equity shares. Allotment of shares was made on pro-rata basis. Share allotment and calls were made and as also received except Raja holding 500 shares failed to pay both the calls. His shares were forfeited after second call.

Record the above transactions in books of Vraj Ltd.

Solution : **Journal Entries in the books of VRAJ LIMITED**

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
1	Bank A/c Dr. To Equity Share Application A/c (Being application money ₹ 4 per share received on 25,000 equity shares)		1,00,000	 1,00,000
2	Equity Share Application A/c Dr. To Equity Share Capital A/c To Equity Share Allotment A/c (Being share application money transferred to Share Capital A/c and Share Allotment A/c)		1,00,000	 80,000 20,000

3	Equity Share Allotment A/c Dr.		1,20,000	
	To Equity Share Capital A/c			1,20,000
	(Being allotment money ₹ 6 per share due on 20,000 equity shares)			
4	Bank A/c Dr.		1,00,000	
	To Equity Share Allotment A/c			1,00,000
	(Being allotment money received from shareholders)			
5	Equity Share First Call A/c Dr.		1,20,000	
	To Equity Share Capital A/c			1,20,000
	(Being first call money ₹ 6 per share due on 20,000 equity shares)			
6	Bank A/c Dr.		1,17,000	
	To Equity Share First Call A/c			1,17,000
	(Being first call money received on all the equity shares except 500 shares held by Raja)			
7	Equity Share Second Call A/c Dr.		80,000	
	To Equity Share Capital A/c			80,000
	(Being second call money ₹ 4 per share due on 20,000 equity shares)			
8	Bank A/c Dr.		78,000	
	To Equity Share Second Call A/c			78,000
	(Being second call money received on all shares except 500 shares held by Raja)			
9	Share Capital A/c Dr.		10,000	
	To Equity Shares First Call A/c			3,000
	To Equity Shares Second Call A/c			2,000
	To Share Forfeiture A/c			5,000
	(Being 500 equity shares forfeited for non-payment of 1st and 2nd calls)			

EXERCISE

(A) Select the most appropriate alternatives from the following and rewrite the sentences :

*(1) (1) The balance of Share Forfeiture A/c is transferred to --------- Account after re-issue of these share.

(a) Reserve Capital *(b) Capital Reserve* *(c) Profit & Loss* *(d) Share Capital*

(2) Premium received on issue of shares is shown to --------- .

(a) Liability side of Balance Sheet *(b) Asset side of Balance Sheet*
(c) Profit & Loss A/c debit side *(d) Profit & Loss A/c credit side*

(3) Shareholders get --------- on shares.

(a) interest *(b) commission* *(c) rent* *(d) dividends*

(4) The document inviting to subscribe the shares of a company is --------- .

(a) Prospectus *(b) Memorandum of Association*
(c) Articles of Association *(d) Share certificate*

(5) As per SEBI guidelines minimum amount payable on share application should be --------- of Nominal Value of shares.

(a) 10 %   (b) 15 %   (c) 2 %   (d) 5 %

(6) When shares are forfeited the Share Capital Account is --------- .

(a) credited   (b) debited   (c) neither debited nor credited   (d) None of the given

(7) The liability of shareholder in Joint Stock Company is --------- .

(a) joint and several   (b) limited   (c) unlimited   (d) huge

(8) The Share Capital which a company is authorised to issue by its Memorandum of Association is --------- .

(a) Nominal Capital / Authorised Capital   (b) Issued Capital
(c) Paid-up Capital   (d) Reserve Capital

(9) The unpaid amount on allotment and calls may be transferred to --------- Account.

(a) Calls-in-Advance   (b) Calls   (c) Calls-in-Arrears   (d) Allotment

(10) There must be provision in --------- for forfeiture of shares.

(a) Articles of Association   (b) Memorandum of Association
(c) Prospectus   (d) Balance Sheet

Ans. (1) Capital Reserve (2) Liability side of Balance Sheet (3) dividends (4) prospectus (5) 5 % (6) debited (7) limited (8) Nominal Capital / Authorised Capital (9) Calls-in-Arrears (10) Articles of Association

(2) (1) Nominal value of shares allotted to the public is called --------- capital.

(a) authorised   (b) reserve   (c) paid-up   (d) subscribed

(2) Paid-up value of all shares allotted is called --------- capital.

(a) uncalled   (b) issued   (c) subscribed   (d) nominal

(3) If the articles are silent regarding interest on Calls-in-Arrears, the minimum rate of interest to be charged is --------- .

(a) 5 % p.a.   (b) 6 % p.a.   (c) 8 % p.a.   (d) none of these

(4) If the articles are silent regarding interest on Calls-in-Advance, the minimum rate of interest to be charged is --------- p.a.

(a) 5 %   (b) 6 %   (c) 8 %   (d) none of these

(5) --------- is deducted from the share capital to know paid-up value of shares.

(a) Calls-in-Advance   (b) Calls-in-Arrears   (c) Forfeited Shares   (d) Discount on Issue

(6) The excess price received over the par value of shares, should be --------- to Securities Premium A/c.

(a) debited   (b) credited   (c) adjusted   (d) none of these

(7) The capital with which a company is registered is called --------- .

(a) Issued Capital   (b) Subscribed Capital   (c) Authorised Capital   (d) Called-up Capital

(8) If a share of ₹ 100 is issued at ₹ 90, it is said to be issued --------- .

(a) at par   (b) at a discount   (c) at a premium   (d) none of these

(9) If a share of ₹ 100 is issued at ₹ 100, it is said to be issued --------- .

(a) at par   (b) at premium   (c) at discount   (d) none of these

(10) If a share of ₹ 100 is issued at ₹ 110, it is said to be issued --------- .

(a) at par (b) at a premium (c) at a discount (d) none of these

Ans. (1) subscribed (2) subscribed (3) 5 % p.a. (4) 6 % (5) Calls-in-Arrears (6) credited (7) Authorised Capital (8) at a discount (9) at par (10) at a premium

(B) * (1) Write the word / phrase / term, which can substitute each of the following statements :

Statement	Ans. (word/phrase/term)
(1) Amount called-up on shares by the company but not received.	Calls-in-Arrears
(2) Issue of share at its face value.	Issue at par
(3) The person who purchase the shares of a company.	Shareholder
(4) The form of business organisation where huge amount of capital can be raised.	Joint stock company
(5) The capital which is subscribed by the public.	Subscribed capital
(6) The shares having preferential right at the time of winding up of the company.	Preference shares
(7) The shares on which dividend is not fixed.	Equity shares
(8) The part of subscribed capital which is not called-up by the company.	Uncalled capital

(2)

Statement	Ans. (word/phrase/term)
(1) The capital which is not disclosed in the Balance Sheet.	Reserve capital
(2) Preference share on which arrears of dividend accumulate.	Cumulative preference shares
(3) A preference share having right of conversion into equity.	Convertible preference shares
(4) The account to which excess amount on Share Forfeited A/c is transferred.	Capital Reserve Account
(5) The maximum amount beyond which a company is not allowed to raise its share capital.	Authorised / Nominal capital
(6) Deduction made from share capital to find out paid-up capital.	Calls-in-Arrears
(7) The capital on which dividend is paid.	Paid-up share capital

(3)

Statement	Ans. (word/phrase/term)
(1) Shares having voting right.	Equity shares
(2) Part of the authorised capital which is offered by the company to the public to subscribe for.	Issued capital
(3) Part of the uncalled capital which is called-up at the time of winding up of the company.	Reserve capital
(4) Shares which are not preference shares.	Equity shares
(5) Shares which enjoy preferential rights in the matter of payment of dividend and repayment of capital.	Preference shares
(6) The direct sale of shares by a company to a limited number of sophisticated investors.	Private placement of shares
(7) A demand made by the company after allotment of shares to pay remaining amount of shares.	Call on share

(C) * (1) State whether the following statements are True or False with reasons :

(1) Directors can forfeit the shares for any reason.

Ans. This statement is **False**.

After paying money on share application, When share applicant fails to pay the call money or premium on shares inspite of repeated reminders and warnings directors / company can forfeit the shares.

(2) Once the application money is received, directors can immediately proceed for allotment of shares.

Ans. This statement is **False**.

Directors can proceed for allotment of shares only after receiving minimum subscription amount of the issued amount by cheque or other instrument complying all legal requirements.

(3) Joint stock company form of business organisations came into existence after industrial revolution.

Ans. This statement is **True**.

As the volume and scale of trade and industry expanded, specially after industrial revolution, a very large unit of commercial organisation requiring large capital and greater managerial skill, called Joint stock company came into existence.

(4) Equity shareholders get guaranteed rate of dividend every year.

Ans. This statement is **False**.

One of the feature for equity shares is the rate of dividend payable on equity shares keeps on changing from one year to another. So, there is no question of guaranteed dividend every year for equity shareholders.

(5) Face value of shares and market value of shares is always same.

Ans. This statement is **False**.

Face value of shares means issue price of shares while market value of shares means trading price of shares at stock exchange. Face value of shares remains same and fixed. However, market price changes as per the performance of the company. Hence face value and market value of shares are not same.

(6) Sweat shares are issued to public.

Ans. This statement is **False**.

Sweat shares are issued by a company to its directors or employees at a discount or for consideration other than cash. Sweat shares are not issued to public.

(2) (1) In private placement, shares are issued to public through prospectus.

Ans. This statement is **False**.

'Private placement' means a direct private offering of the company's securities by a company to a selected group of sophisticated investors. In private placement, shares are not issued to public through prospectus.

(2) In public issue whole amount of share capital is called at once.

Ans. This statement is **False**.

In public issue whole amount of share capital is not called at once but called in several instalments such as application money, allotment money and calls money by following SEBI guidelines.

(3) Shares are always issued at par.

Ans. This statement is **False**.

Depends on the company's position in market, company can issued shares at par or at premium or at discount.

(4) Share forfeited balance is transferred to Capital Reserve Account.

Ans. This statement is **True**.

Share forfeited balance is a profit earned by company at the time of issuing shares, which is not recurring in nature. It is also known as capital profit. Therefore it is to be transferred to Capital Reserve Account.

(5) Shares are issued for cash only.

Ans. This statement is **False**.

Company issues shares for cash and also for consideration other than cash. Shares are issued by the company to the vendor for purchase of land, machinery, etc. In such cases money is not paid, but shares are issued by the company for value received.

(6) Preference shares can be redeemed after a certain period of time.

Ans. This statement is **True**.

When provision of Articles of Association permits, Preference shares can be redeemed after a certain period of time with other preferential rights like preference for the payment of dividend at predetemined fixed rate and for repayment of capital.

(7) Authorised capital of a company is always equal to its issued capital.

Ans. This statement is **False**.

Authorised capital means maximum limit up to which a company is authorised to raise share capital while issued capital means capital which is issued or offered for subscription to the public. Issued capital is a part of authorised capital. So, authorised capital and issued capital can't be equal for a company.

(D) * (1) State whether you agree or disagree with following statements :

(1) In case of Pro-rata allotment the excess application money received must be refunded.
(2) Calls-in-Advance account is shown on the asset side of the Balance Sheet.
(3) The Authorised Capital is also known as Nominal Capital.
(4) Paid-up capital can be more than Called-up Capital.
(5) Joint stock company can raise huge amount of capital.
(6) When shares are Forfeited Shares Capital Account is credited.
(7) Directors can re-issued forfeited shares.
(8) When the issued price of share is ₹ 12 and face value is ₹ 10, the share is said to be issued at premium.
(9) Public limited company can issue its share without issuing its prospectus.
(10) Shares can be issued for consideration other than cash.

Ans. (1) Disagree (2) Disagree (3) Agree (4) Disagree (5) Agree (6) Disagree (7) Agree (8) Agree (9) Disagree (10) Agree.

(2) (1) Equity shareholders enjoys preferential rights.
(2) Equity share is a gurantee of fixed rate of dividend.
(3) Private placement method saves time and cost.

(4) Shares can be issued at par or at discount or at premium.

(5) A public company forfeits shares on non payment of final call only.

(6) Forfeited shares are reissued at par.

(7) Calls-in-Arrears is also called unpaid calls.

(8) Balance of Calls-in-Advance account is shown in the Balance Sheet under the head 'Share Capital'.

(9) Sweat shares can be issued for consideration other than cash.

(10) Equity shares are issued to public through prospectus.

Ans. (1) Disagree (2) Disagree (3) Agree (4) Agree (5) Disagree (6) Disagree (7) Agree (8) Agree (9) Agree (10) Agree.

(E) * (1) Answer in one sentence only :

(1) What is Preference Shares ?

Ans. Preference Shares is a type of a share which enjoys priority or preference over equity share for the repayment of dividend at a predetermined fixed rate and for the repayment of capital.

(2) What is Registered Capital ?

Ans. Registered Capital or Authorised Capital means maximum limit up to which a company is authorised to raise share capital.

(3) What is Reserve Capital ?

Ans. Reserve Capital is that part of the subscribed capital which is reserved to be called-up only at the time of winding up or liquidation of the company.

(4) What is Over Subscription of Shares ?

Ans. When a company received more applications of shares than those actually offered or issued to the public, known as Over Subscription of Shares.

(5) Which account is debited when share first call money is received ?

Ans. Bank account will be debited when share first call money is received.

(6) When are shares alloted on pro-rata basis ?

Ans. Shares are said to allotted on pro-rata basis, when the applications are received for more shares than the number of shares issued and shares are allotted in proportion of the number of shares applied for.

(7) What is Forefeiture of Shares ?

Ans. When a shareholder fails to pay the call money or premium on the shares in spite of repeated reminders and warnings, the company forfeits the shares of such defauters known as forfeiture of shares.

(8) What is Calls-in-Arrears ?

Ans. Non-payment of allotment or call money by the applicants inspite of repeated reminders are called Calls-in-Arrears.

(9) What do you mean by Shares Issued at Premium ?

Ans. When shareholders are supposed to pay a price higher than the face value of the shares, them shares are said to be issued at premium.

(10) What is Paid-up Capital ?

Ans. Part of the called-up capital which is actually paid by the shareholders is called Paid-up Share Capital.

(2) **(1) What is Owned Capital ?**

Ans. The capital collected through issue of shares is known as Owned Capital.

(2) State the types of shares.

Ans. There are two types of shares viz. (i) Equity or Ordinary Shares (ii) Preference Shares

(3) What is Subscribed Capital ?

Ans. Subscribed Capital is a part of the issued capital which the company has actually received by way of application from the public and also alloted by the company.

(4) What is Under Subscription ?

Ans. When a company received applications for shares less than those actually offered or issued to the public, the issue is said to be under subscribed.

(5) State the meaning of issued capital.

Ans. The part or the portion of authorised capital which is issued or offered for subscription to the public is called issued capital.

(6) Define Share.

Ans. The owned capital of a company when divided into a large number of parts having equal face value, each such part is called a 'Share'.

(7) What is Equity Share?

Ans. An equity share is the one which has no special preferential right to dividend or repayment of capital.

(8) Write the meaning of Equity Share Capital.

Ans. The capital raised by the company through the issue of equity shares is called equity share capital.

(3) **(1) What is meant by Convertible Preference Share ?**

Ans. Preference share which can be converted into equity share after a certain period is called Convertible Preference Share.

(2) Which preference shares are called Cumulative Preference Shares?

Ans. Preference shares in which unpaid dividend in a year gets accumulated and added in the dividend of the next year are called Cumulative Preference Shares.

(3) What is Allotment of Shares?

Ans. Allotment of shares means after considering the demand of the applicants, accepting application forms up to certain fixed numbers as per the resolution passed in the meeting of the board of directors.

(4) What is meant by Discount on Issue of Shares?

Ans. When shareholders are supposed to pay a price lower than the face value of the shares, then the shares are said to be issued at discount.

(5) Give the full form of SEBI.

Ans. The full form of SEBI is Securities Exchange Board of India.

(6) Define Calls-in-Advance.

Ans. Calls-in-Advance is that amount paid by the shareholders in excess of the call amount due from them.

(7) Define Securities Premium Account.

Ans. In case of issue of shares at premium, a separate account into which premium amount is deposited is called 'Securities Premium Account'.

(8) When are shares said to be issued at par?

Ans. Shares are said to be issued at par when the company issues shares at their face value.

(F) * (1) Complete the following sentences :

(1) When face value of the share is ₹ 100 and issued price is ₹ 120, then it is said that the shares are issued at ....

(2) .... Capital is the capital which a company is authorised to issue by its Memorandum of Association.

(3) The difference between Called-up Capital and Paid-up Capital is known as ....

(4) .... shareholders get fixed rate of dividend.

(5) .... shareholders are the real owners of the company.

(6) .... form of business organisation in which capital is raised through the issue of shares.

(7) .... Capital is the part of Issued capital which is subscribed by the public.

(8) The part of Authorised Capital which is not issued to the public is known as .... Capital.

Ans. (1) premium (2) Authorised (3) Calls-in-Arrears (4) Preference (5) Equity (6) Joint stock company (7) Subscribed (8) Unissued.

(2) (1) The portion of Subscribed capital which has not yet been called-up is ....

(2) The capital which is not disclosed in the Balance Sheet is known as ....

(3) .... shares have voting right.

(4) The liability of shareholder of public limited company is ....

(5) .... shares are issued to public through prospectus.

(6) In public issue whole amount of share capital is called in ....

(7) A public company .... share on non-payment of call money.

(8) Share forfeited balance is transferred to .... Account.

(9) Preference shares can be .... after certain period of time.

(10) .... shares have a right to participate in decision making process.

Ans. (1) Uncalled capital (2) Reserve capital (3) Equity (4) limited (5) Equity (6) instalments (7) forfeits (8) Capital Reserve (9) redeemed (10) Equity

*** (G) Calculate the following :**

(1) One shareholder holding 500 equity shares paid share application money @ ₹ 3, Allotment money @ ₹ 4 per share and failed to pay final call of ₹ 3 per share his share were forfeited calculate the amount of forfeiture.

Ans. Amount of forfeiture = Amount received by company (In case of non-payment of 'calls')

Here, shareholder paid ₹ 3 per share on application and ₹ 4 per share on allotment on 500 shares. So, total amount received by company

= 500 × ₹ 3 + 500 × ₹ 4 = 1,500 + 2,000 = **₹ 3,500**

∴ Amount of share forfeiture = ₹ 3,500.

(2) 10,000 equity shares of ₹ 10 each issued at 10 % premium. Calculate the total amount of share premium.

Ans. Equity shares = 10,000

Face value = ₹ 10 per share

Premium @ 10 % = $10{,}000 \times 10 \times \frac{10}{100}$ = ₹ 10,000

So, premium 10,000 shares of ₹ 10 each at 10 % = **₹ 10,000**

(3) Company received excess application for 5000 shares @ ₹ 4 per share. Application of 1000 shares were rejected and pro-rata allotment was made. Calculate the amount of application money adjusted with allotment.

Ans. Excess application money received for 5000 shares @ ₹ 4 per share = ₹ 20,000
Less : Application of 1000 shares rejected and money refunded = ₹ 4,000
Excess money received to be adjusted with allotment → ₹ 16,000

(4) 80,000 equity shares of ₹ 10 each issued and fully subscribed and called-up at 20 % premium. Calculate the amount of Equity Share capital.

Ans. Equity Share capital = No. of equity shares × face value of each share
= 80,000 × ₹ 10
= ₹ 8,00,000

Note : Equity Share capital has no concern with premium or discount amount.

(5) Directors issued 20,000 equity shares of ₹ 100 each at par. These were fully subscribed and called-up. All money were received except one shareholder holding 100 equity shares failed to pay final call of ₹ 20 per share. Calculate the amount of Paid-up capital of the company.

Ans. Fully subscribed and called-up amount = 20,000 equity shares × ₹ 100 each share
= ₹ 20,00,000

But one share holder failed to pay final call of ₹ 20 per share of 100 equity shares means
Non-payment of shares = 100 equity shares × ₹ 20 per share
= ₹ 2,000

∴ Total Paid-up capital amount = ₹ 20,00,000 – ₹ 2,000
= ₹ 19,98,000

(6) Company send regret letter for 100 shares and Allotment letter to 25,000 shareholders. Application money per ₹ 20 per share. Calculate the amount of application money which company is refunding.

Ans. Company send Regret letter for 100 shares for ₹ 20 per share application money received i.e. only that much amount company will refund.

Amount of refund = No. of shares × Value of per share
= 100 × ₹ 20
= ₹ 2,000

SOLUTIONS OF TEXTUAL PROBLEMS

* **(1)** Vijay Ltd. was registered with an authorised capital of ₹ 15,00,000 divided into 1,50,000 equity shares of ₹ 10 each.

Company issued 1,00,000 equity shares of ₹ 10 each at a premium of ₹ 2 per share. Company received applications for 80,000 equity shares and were allotted the shares.

Company received application money ₹ 3 per share, allotment money ₹ 4 per share (including premium) and first call money ₹ 3 per share.

The Directors have not made final call of ₹ 2 per share. All money were received except one shareholder holding 500 shares did not pay first call.

Show Authorised capital, Issued capital, Subscribed capital, Called-up capital, Paid-up capital, Calls-in-Arrears and Share Premium amount in company Balance Sheet.

Solution :

In the books of Vijay Ltd.
Balance Sheet as on ....

Liabilities		Amount (₹)	Assets	Amount (₹)
Authorised Capital :			Cash at Bank	7,98,500
1,50,000 equity shares of ₹ 10 each		15,00,000		
Issued Capital :				
1,00,000 equity shares of ₹ 10 each		10,00,000		
Subscribed Capital :				
80,000 equity shares of ₹ 10 each		8,00,000		
Called-up Capital :				
80,000 equity shares of ₹ 8 each		6,40,000		
Paid-up Share Capital :				
(80,000 equity shares at				
8 per shares)	6,40,000			
Less : Calls-in-Arrears				
(500 shares at				
₹ 3 per share)	1,500	6,38,500		
Share Premium / Securities A/c		1,60,000		
(80,000 shares at ₹ 2 per share)				
Total		7,98,500	Total	7,98,500

Working Notes :

(1) Bank balance at the end = Amount received on application

+ Amount received on allotment + Amount received on 1st call + Premium amount received

= 80,000 × 3 + 80,000 × 2 × 79,500 × 3 + 80,000 × 2

= 2,40,000 + 1,60,000 + 2,38,500 + 1,60,000

= ₹ 7,98,500

(2) Directors have not made final call of ₹ 2 per share

means total called-up amount = ₹ 10 – ₹ 2 = ₹ 8

(3) Calls-in-Arrears → on 500 shares at ₹ 3 = ₹ 1,500 of first call

(4) Share premium on 80,000 shares @ ₹ 2 received at allotment stage i.e. share premium amount

= 80,000 × ₹ 2 = ₹ 1,60,000

* **(2)** Anand Company Limited issued 1,00,000 preference shares of ₹ 10 each payable as

On Application ₹ 4
On Allotment ₹ 3
On First call ₹ 2
On Second & Final call ₹ 1

Company received application for all these share and received all money.

Pass Journal Entries in the books of Anand Company Ltd.

Solution : **Journal Entries in the books of Anand Company Limited**

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
1	Bank A/c Dr. To Preference Share Application A/c (Being application money on 1,00,000 preference shares @ ₹ 4 per share received)		4,00,000	 4,00,000
2	Preference Share Application A/c Dr. To Preference Share Capital A/c (Being application money received on 1,00,000 preference share @ ₹ 4 per share transferred to Preference Share Capital Account)		4,00,000	 4,00,000
3	Preference Share Allotment A/c Dr. To Preference Share Capital A/c (Being allotment money on 1,00,000 preference shares @ ₹ 3 per share due)		3,00,000	 3,00,000
4	Bank A/c Dr. To Preference Share Allotment A/c (Being allotment money on 1,00,000 preference share @ ₹ 3 per share received)		3,00,000	 3,00,000
5	Preference Share First Call A/c Dr. To Preference Share Capital A/c (Being first call money on 1,00,000 preference shares @ ₹ 2 per share due)		2,00,000	 2,00,000
6	Bank A/c Dr. To Preference Share First Call A/c (Being first call money on 1,00,000 preference share @ ₹ 2 per share received)		2,00,000	 2,00,000
7	Preference Share Second & Final Call A/c Dr. To Preference Share Capital A/c (Being second & final call money on 1,00,000 Preference Shares @ ₹ 1 per share due)		1,00,000	 1,00,000
8	Bank A/c Dr. To Preference Share Second & Final Call A/c (Being Second and final call money on 1,00,000 Preference Shares @ ₹ 1 per share received)		1,00,000	 1,00,000

* **(3)** Rohini Company Limited issued 25,000 equity shares of ₹ 100 each payable as follows :

On Application ₹ 20
On Allotment ₹ 30
On First call ₹ 20
On Second & Final call ₹ 30

Application were received for 22,000 equity shares and allotment of shares were made to them. All money was received by the company.

Pass Journal Entries in the books of Rohini Co. Ltd.

Solution : **Journal Entries in the books of Rohini Company Limited**

Date	Particulars		L.F.	Debit Amount (₹)	Credit Amount (₹)
1	Bank A/c	Dr.		4,40,000	
	To Equity Share Application A/c				4,40,000
	(Being equity share application money on 22,000 shares @ ₹ 20 per share received)				
2	Equity Share Application A/c	Dr.		4,40,000	
	To Equity Share Capital A/c				4,40,000
	(Being equity share application money on 22,000 equity shares @ ₹ 20 per share transferred to Equity Share Capital Account)				
3	Equity Share Allotment A/c	Dr.		6,60,000	
	To Equity Share Capital A/c				6,60,000
	(Being allotment money on 22,000 equity shares @ ₹ 30 per share due)				
4	Bank A/c	Dr.		6,60,000	
	To Equity Share Allotment A/c				6,60,000
	(Being equity share allotment money on 22,000 shares @ ₹ 30 per share received)				
5	Equity Share First Call A/c	Dr.		4,40,000	
	To Eqity Share Capital A/c				4,40,000
	(Being equity share first call money on 22,000 shares @ ₹ 20 due)				
6	Bank A/c	Dr.		4,40,000	
	To Equity Share First Call A/c				4,40,000
	(Being equity share first call money on 22,000 shares @ ₹ 20 per share received)				
7	Equity Share Second & Final Call A/c	Dr.		6,60,000	
	To Equity Share Capital A/c				6,60,000
	(Being equity share second & final call money on 22,000 shares @ ₹ 30 due)				
8	Bank A/c	Dr.		6,60,000	
	To Equity Share Second & Final Call A/c				6,60,000
	(Being equity share second & final call money on 22,000 shares @ ₹ 30 per share received)				

* **(4)** Deepak Manufacturing Co. Ltd. issued a prospectus inviting applications for 1,00,000 equity shares of ₹ 10 each payable as follows :

₹ 2 on Application
₹ 4 on Allotment
₹ 2 on First call
₹ 2 on Final call

Application were received for 1,20,000 equity shares. The Directors decided to reject excess applications and refunded application money on that. Company received all money.

Pass Journal Entries in the books of a company.

Solution : **Journal Entries in the books of Deepak Manufacturing Co. Ltd.**

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
1	Bank A/c Dr. To Equity Share Application A/c (Being equity share application money on 1,20,000 shares @ ₹ 2 per share received)		2,40,000	 2,40,000
2	Equity Share Application A/c Dr. To Equity Share Capital A/c (Being application money on 1,00,000 shares transferred to equity share capital account)		2,00,000	 2,00,000
3	Equity share Application A/c Dr. To Bank A/c (Being application money on excess 20,000 shares @ ₹ 2 per share refunded)		40,000	 40,000
4	Equity Share Allotment A/c Dr. To Equity Share Capital A/c (Being equity share allotment money on 1,00,000 shares @ ₹ 4 per share due)		4,00,000	 4,00,000
5	Bank A/c Dr. To Equity Share Allotment A/c (Being allotment money on 1,00,000 shares @ ₹ 4 per share received)		4,00,000	 4,00,000
6	Equity Share First Call A/c Dr. To Equity Share Capital A/c (Being equity share first call money on 1,00,000 shares @ ₹ 2 per share due)		2,00,000	 2,00,000
7	Bank A/c Dr. To Equity Share First Call A/c (Being equity first call money on 1,00,000 shares @ ₹ 2 per share received)		2,00,000	 2,00,000
8	Equity Share Final Call A/c Dr. To Equity Share Capital A/c (Being equity share final call money on 1,00,000 shares @ ₹ 2 per share due)		2,00,000	 2,00,000
9	Bank A/c Dr. To Equity Share Final Call A/c (Being equity share final call money on 1,00,000 shares @ ₹ 2 per share received)		2,00,000	 2,00,000

* **(5)** Sucheta Company Limited issued ₹ 20,00,000 new capital divided into ₹ 100 equity shares at a premium of ₹ 20 per share payable as ₹ 10 on Application, ₹ 40 on Allotment and ₹ 10 premium ₹ 50 on Final call and ₹ 10 premium.

The issue was oversubscribed to the extent of 26,000 equity shares. The applicants on 2,000 shares were sent letter of regret and their application money was refunded.

Remaining applicants were alloted shares on Pro-rata basis. All the money due on Allotment and Final call was only received.

Make necessary Journal Entries in the books of Sucheta Company Ltd.

Solution : **Journal Entries in the books of Sucheta Company Limited**

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
1	Bank A/c Dr.		2,60,000	
	To Equity Share Application A/c			2,60,000
	(Being application money on 26,000 equity shares @ ₹ 10 per share received)			
2	Equity Share Application A/c Dr.		20,000	
	To Bank A/c			20,000
	(Being application money on 2,000 equity shares @ ₹ 10 per share refunded)			
3	Equity Share Application A/c Dr.		2,40,000	
	To Equity Share Capital A/c			2,00,000
	To Equity Share Allotment A/c			40,000
	(Being application money on 20,000 equity shares transferred to equity share capital and application money on 2,000 equity shares adjusted against Share Allotment A/c)			
4	Equity Share Allotment A/c Dr.		10,00,000	
	To Equity Share Capital A/c			8,00,000
	To Share Premium A/c			2,00,000
	(Being allotment money (including premium) on 20,000 equity shares @ ₹ 50 per share due)			
5	Bank A/c Dr.		9,60,000	
	To Equity Share Allotment A/c			9,60,000
	(Being allotment money on 20,000 equity shares, after adjusting excess application money received)			
6	Equity Share Final Call A/c Dr.		12,00,000	
	To Equity Share Capital A/c			10,00,000
	To Share Premium A/c			2,00,000
	(Being share final call money (including premium) on 20,000 equity shares @ ₹ 60 per share due)			
7	Bank A/c Dr.		12,00,000	
	To Equity Share Final Call A/c			12,00,000
	(Being share final call money on 20,000 equity shares @ ₹ 60 per share received)			

Working Note :

Calculation of Application money transferred to Share Allotment :

Application money received (26,000 × 10) :	2,60,000
Less : Application money refunded (2,000 × 10) :	20,000
	2,40,000
Less : Application money transferred to Share Capital : (20,000 × 10)	2,00,000
Excess money received on application transferred to Share Allotment :	40,000

Bifurcation of calls amount :

Per share value ₹ 100 }
Premium amount ₹ 20 }
→ On Application : ₹ 10 per share
→ On Allotment : ₹ 40 per share for Capital
+ ₹ 10 per share for Premium
→ On final call : ₹ 50 per share for Capital
+ ₹ 10 per share for Premium

* **(6)** Suhas Limited issued 10,000 equity shares of ₹ 10 each at a premium of ₹ 2 per share payable ₹ 3 on application, ₹ 5 (including premium) on allotment and the balance in two calls of equal amount. Applications were received for 11,000 equity shares and pro-rata allotment was made for all the applicants. The excess application money was adjusted towards allotment.

Mrs Shobha who were alloted 200 equity shares failed to pay F / F / C and her shares were forfeited after the final call

Show Journal Entries in the books of Suhas Ltd. and also show its presentation in Balance Sheet.

Solution : **Journal Entries in the books of Suhas Limited**

Date	Particulars		L.F.	Debit Amount (₹)	Credit Amount (₹)
1	Bank A/c	Dr.		33,000	
	To Equity Share Application A/c				33,000
	(Being application money on 11,000 equity shares @ ₹ 3 per share received)				
2	Equity Share Application A/c	Dr.		33,000	
	To Equity Share Capital A/c				30,000
	To Equity Share Allotment A/c				3,000
	(Being application money on 10,000 shares transferred to Share Capital A/c and remaining amount adjusted against allotment)				
3	Equity Share Allotment A/c	Dr.		50,000	
	To Equity Share Capital A/c				30,000
	To Share Premium A/c				20,000
	(Being allotment money on 10,000 equity shares @ ₹ 5 per share, including premium of ₹ 2 per share, due)				
4	Bank A/c	Dr.		47,000	
	To Equity Share Allotment A/c				47,000
	(Being share allotment money received after adjusting excess application money received)				

5	Equity Share First Call A/c Dr.		20,000	
	To Equity Share Capital A/c			20,000
	(Being equity share first call money on 10,000 shares @ ₹ 2 per share due)			
6	Bank A/c Dr.		19,600	
	To Equity Share First Call A/c			19,600
	(Being share first call money received @ ₹ 2 per share except 200 shares of Mrs Shobha)			
7	Equity Share Final Call A/c Dr.		20,000	
	To Equity Share Capital A/c			20,000
	(Being equity share final call money on 10,000 shares @ ₹ 2 per share due)			
8	Bank A/c Dr.		19,600	
	To Equity Share Final Call A/c			19,600
	(Being share final call money received @ ₹ 2 per share except 200 shares of Mrs Shobha)			
9	Equity Share Capital A/c Dr.		2,000	
	To Equity Share First Call A/c			400
	To Equity Share Final Call A/c			400
	To Equity Share Forfeiture A/c			1,200
	(Being 200 shares of Mrs. Shobha forfeited due to non-payment of first and final call @ ₹ 2 each i.e. paid amount ₹ 6 per share forfeited by company)			

Balance Sheet of Suhas Lmited

Liabilities	Amount (₹)	Assets	Amount (₹)
Share Capital	98,000	Bank	1,19,200
Share Premium	20,000		
Share Forfeiture	1,200		
	1,19,200		1,19,200

Working Notes :

(1) Excess amount received at the time of application ₹ 3,000 adjusted at allotment stage, so allotment amount received in bank is ₹ 47,000.

(2) Amount called-up per share : ₹ 3 on application, ₹ 5 (including premium) on allotment i.e. ₹ 2 premium + ₹ 3 capital and balance amount ₹ 4 in two calls of equal amount i.e. ₹ 2 on first call and ₹ 2 on final call.

(3) Mrs Shobha was not able to pay F / F / C i.e. first and final call means 200 × ₹ 2 first call money = ₹ 400 and 200 × ₹ 2 final call money = ₹ 400.

Mrs Shobha paid ₹ 6 per share towards capital which company received and company has right to forfeit only paid amount means company forfeited ₹ 1,200 of Mrs Shobha.

* **(7)** Subhash Company Limited issues 2000 Equity shares of ₹ 100 each payable as ₹ 30 on application, ₹ 30 on allotment, ₹ 40 on first and final call.

All the shares were subscribed and duly alloted. Company made all the calls. All cash was duly received except the first and final call on 100 equity shares. These shares were forfeited by company and were re-issued as fully paid for ₹ 75 per share.

Show the Journal Entries in the books of Subhash Company Ltd.

Solution : **Journal Entries in the books of Anand Company Limited**

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
1	Bank A/c Dr.		60,000	
	To Equity Share Application A/c			60,000
	(Being application money on 2,000 equity shares @ ₹ 30 per share received)			
2	Equity Share Application A/c Dr.		60,000	
	To Equity Share Capital A/c			60,000
	(Being application money received on 2,000 equity shares transferred to equity share capital)			
3	Equity Share Allotment A/c Dr.		60,000	
	To Equity Share Capital A/c			60,000
	(Being equity share allotment money on 2,000 shares @ ₹ 30 per share due)			
4	Bank A/c Dr.		60,000	
	To Equity Share Allotment A/c			60,000
	(Being equity share allotment money on 2,000 shares @ ₹ 30 per share received)			
5	Equity Share First and Final Calls A/c Dr.		80,000	
	To Equity Share Capital A/c			80,000
	(Being equity share first and final call money on 2,000 shares @ ₹ 40 per share due)			
6	Bank A/c Dr.		76,000	
	To Equity Share First and Final Call A/c			76,000
	(Being equity share first and final call money on 1900 shares @ ₹ 40 per share received)			
7	Equity Share Capital A/c Dr.		10,000	
	To Equity Share First and Final Call A/c			4,000
	To Equity Share Forfeiture A/c			6,000
	(Being forfeiture of 100 shares due to non-payment of first and final call)			
8	Bank A/c Dr.		7,500	
	Equity Share Forfeiture A/c Dr.		2,500	
	To Equity Share Capital A/c			10,000
	(Being re-issue of 100 forfeited shares @ ₹ 75 per share)			

9	Equity Share Forfeiture A/c Dr. To Capital Reserve A/c (Being balance of Share Forfeiture A/c transferred to Capital Reserve A/c)		3,500	3,500

Working Notes :

(1) Amount forfeited by the company on 100 shares forfeited = 100 × (30 + 30) = 100 × 60 = ₹ 6,000

(2) Calls-in-Arrears = 100 × 40 = ₹ 4,000.

(3) Amount received on re-issue of 100 forfeited shares = 100 × 75 = ₹ 7,500. Balance of ₹ 2,500 (i.e. loss 25 × 100) is transferred to Share Forfeiture A/c.

(4) Amount transfer from Share Forfeiture A/c to Capital Reserve is ascertained by preparing Share Forfeiture A/c.

Dr. **Share Forfeiture A/c** **Cr.**

Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
8	To Equity Share Capital A/c		2,500	7	By Equity Share Capital A/c		6,000
9	To Capital Reserve A/c (Balancing figure)		3,500				
			6,000				6,000

* **(8) Pass Journal Entries for the forfeiture and re-issue of shares in the following cases :**

(A) Asha Ltd. forfeited 100 equity shares of ₹ 20 each fully called-up for non-payment of first call of ₹ 3 per share and final call of ₹ 5 per share. 80 shares of these were re-issued at ₹ 15 per share as fully paid.

(B) Bhakti Ltd. forfeited 100 equity shares of ₹ 10 each, ₹ 6 called-up on which the shareholder paid application and allotment of ₹ 5 per share. Of these 80 shares were re-issued as fully paid-up for ₹ 6 per share.

(C) Konark Ltd. forfeited 50 shares of ₹ 10 each, ₹ 8 called-up. The shareholder failed to pay first call of ₹ 3 per share. Later on 30 shares of these were re-issued at ₹ 7 per share.

Solution : **Journal Entries [For Asha Ltd.]**

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
(A)(i)	Equity Share Capital A/c Dr.		2,000	
	To Equity Share First Call A/c			300
	To Equity Share Final Call A/c			500
	To Equity Share Forfeiture A/c			1,200
	(Being forfeiture of 100 equity shares due to non-payment of first call @ ₹ 3 and final call @ ₹ 5 per share)			
(ii)	Bank A/c Dr.		1,200	
	Equity Share Forfeiture A/c Dr.		400	
	To Equity Share Capital A/c			1,600
	(Being re-issue of 80 forfeited shares @ ₹ 15 per share as fully paid-up)			

(iii)	Equity Share Forfeiture A/c Dr. To Capital Reserve A/c (Being proportion balance of Share Forfeiture A/c transferred to Capital Reserve A/c)		560	 560

Working Notes : For A :

(1) Out of 100 forfeited shares, 80 shares were re-issued accordingly Equity Share Capital A/c is debited and credited.

(2) To find proportionate amount for Forfeiture A/c :

For 100 shares – share forfeiture amount = ₹ 1,200
∴ 80 shares – share forfeiture amount = ? = ₹ **960**

Now, out of this ₹ 960 we used ₹ 400 from Share Forfeiture A/c at the time of re-issue of shares.

So, balance of Share Forfeiture A/c = ₹ 960 – ₹ 400 = ₹ **560**

Journal Entries [For Bhakti Ltd.]

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
(B)(i)	Equity Share Capital A/c (100 × ₹ 6) Dr. To Calls-in-Arrears A/c To Equity Share Forfeifure A/c (100 × ₹ 5) (Being forfeiture of 100 equity shares due to non-payment of ₹ 100)		600	 100 500
(ii)	Bank A/c (80 × ₹ 6) Dr. To Equity Share Capital A/c (Being re-issue of 80 forfeited shares @ ₹ 6 per share as fully paid-up)		480	 480
(iii)	Equity Share Forfeiture A/c Dr. To Capital Reserve A/c (Being proportionate balance of Share Forfeiture A/c transferred to Capital Reserve A/c)		400	 400

Working Notes : For B :

(1) Out of 100 forfeited shares, 80 shares were re-issued accordingly Equity Share Capital A/c is debited for ₹ 600 and credited for ₹ 480.

(2) The proportionate amount debited to Forfeiture A/c :

For 100 shares – share forfeiture amount debited = ₹ 500
∴ 80 shares – share forfeiture amount = ? = ₹ **400**

$$\left.\begin{array}{l}\\ \\ \end{array}\right\} \frac{80}{100} \times \frac{500}{1} = ₹\ 400$$

Now, shares were re-issued at ₹ 6 per share which is called-up amount.

∴ Proportionate amount for Forfeiture A/c ₹ 400 will be transferred to Capital Reserve A/c.

Journal Entries [For Konark Ltd.]

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
(C)(i)	Equity Share Capital A/c (50 × ₹ 8) Dr.		400	
	To Equity Share First Call A/c (50 × ₹ 3)			150
	To Equity Share Forteifure A/c			250
	(Being forfeiture of 50 equity shares due to non-payment of first call @ ₹ 3 per share)			
(ii)	Bank A/c (30 × ₹ 7) Dr.		210	
	Equity Share Forfeiture A/c Dr.		30	
	To Equity Share Capital A/c (30 × ₹ 8)			240
	(Being re-issue of 30 forfeited shares @ ₹ 7 per share)			
(iii)	Equity Share Forfeiture A/c Dr.		120	
	To Capital Reserve A/c			120
	(Being proportionate balance of Share Forfeiture A/c transferred to Capital Reserve A/c)			

Working Note : For C :

The proportionate amount debited to Forfeiture A/c :

For 50 shares – share forfeiture amount debited is ₹ 250
∴ 30 shares – share forfeiture amount = ? = ₹ **150** $\Big\} \frac{30}{50} \times 250 =$ ₹ 150

Out of this ₹ 30 used for re-issue of forfeited shares.

∴ Balance of Share Forfeiture A/c = ₹ 150 – ₹ 30 = ₹ 120.

PROBLEMS FOR PRACTICE

(1) **From the following details calculate authorised capital, issued, subscribed, called-up and paid-up share capital and also calls-in-arrears :**

Naksh Co. Ltd., was established with a capital of ₹ 10,00,000 divided into 10,000 shares of ₹ 100 each. Of these 5,000 shares were issued to the vendor as fully paid in payment of purchase of machinery. 3,000 shares were offered to the public and of these 2,500 shares were applied and allotted. ₹ 20 was payable on application and ₹ 25 on allotment. ₹ 30 was payable on 1st call and remaining money was called on final call. All the money called-up was duly received, except 1st call and second call on 400 shares.

[**Ans.** (1) Authorised capital = ₹ 10,00,000. (2) Issued capital = ₹ 8,00,000. (3) Subscribed capital = ₹ 7,50,000. (4) Called-up capital = ₹ 7,50,000. (5) Paid-up capital = ₹ 7,28,000. (6) Calls-in-arrears = ₹ 22,000.]

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(2) **Navrang Co. Ltd. issued 30,000 equity shares of ₹ 100 each payable as under :**

On Application : ₹ 30	On Allotment : ₹ 20
On First Call : ₹ 30	On Final Call : ₹ 20

All the shares were fully subscribed by the public. All the money due on instalments were received.

Pass journal entries to record the above transactions in the books of the company.

[**Ans.** Issued capital, Called-up capital, Subscribed capital and Paid-up capital = ₹ 30,00,000 each.]

(3) Kalpana Ltd. issued 40,000 equity shares of ₹ 10 each payable as under :

₹ 3 on application	₹ 2 on allotment
₹ 3 on first call	₹ 2 on second call

Public applied for 36,000 shares and all the applications were accepted by the company. Allotment of the shares were made. All the money on allotment, first call and second call were received. Show the journal of the company.

[**Ans.** (1) Issued capital = ₹ 4,00,000. (2) Subscribed capital = ₹ 3,60,000. (3) Called-up capital = ₹ 3,60,000 and (4) Paid-up capital = ₹ 3,60,000.]

(4) 'Saurya' Ltd., invited applications for 70,000 equity shares of ₹ 100 each payable as under :

₹ 30 on application	₹ 20 on allotment
₹ 30 on first call	₹ 20 on final call

Public applied for 90,000 shares. All the applications were accepted by the company. Money on excess applications was used for allotment purpose. Assuming that all the allotment, first call and final call were duly received.

Pass journal entries in the books of the company.

[**Ans.** (1) Money received on application = ₹ 27,00,000. (2) Excess money adjusted to share allotment = ₹ 6,00,000. (3) Money received on allotment = ₹ 8,00,000. (4) Money received on first call = ₹ 2,10,000 (5) Money received on final call = ₹ 14,00,000 (6) Paid-up capital = ₹ 70,00,000.]

(5) Ambica Co. Ltd. invited applications for 50,000 equity shares of ₹ 100 each payable on application ₹ 30, on allotment ₹ 35 and final call of ₹ 35. Applications were received for 48,000 shares. All the applicants were allotted shares as per their demand. The company received allotment and call money. Show journal entries in the books of Ambica Co. Ltd.

[**Ans.** (1) Issued capital = ₹ 50,00,000. (2) Subscribed and called-up capital = ₹ 48,00,000. (3) Paid-up capital = ₹ 48,00,000. (4) Money received on application = ₹ 14,40,000. (5) Cash received on allotment = ₹ 16,80,000 and (6) Money received on final call = ₹ 16,80,000.]

(6) Neil and Nitin Co. Ltd. issued 86,000 shares of ₹ 100 each payable as follows :

₹ 25 on application	₹ 30 on allotment
₹ 25 on first call	₹ 20 on second call

Public applied for 80,000 shares and all applications were accepted to allot the shares. All sums due on allotment and calls were received. Journalise the transactions in the books of Neil and Nitin Co. Ltd.

[**Ans.** (1) Issued capital = ₹ 86,00,000. (2) Subscribed capital = ₹ 80,00,000. (3) Called-up and Paid-up capital = ₹ 80,00,000. (4) Cash received on application = ₹ 20,00,000; Allotment money received = ₹ 24,00,000; 1st call money received = ₹ 20,00,000 and 2nd call money received = ₹ 16,00,000.]

(7) Surya Co. Ltd. invited applications for 60,000 equity shares of ₹ 10 each payable as under :

₹ 3 on application	₹ 3 on allotment
₹ 2 on first call	₹ 2 on second call

Public applied for 75,000 shares Company rejected 7,000 applications and their money was refunded. Money on remaining applications after allotment of 60,000 share diverted to allotment. All the money on allotment and calls was duly received. Pass journal entries in the books of Surya Co. Ltd.

[**Ans.** (1) Money received on application = ₹ 2,25,000. (2) Money refunded to applicants = ₹ 21,000. (3) Excess application money transferred to allotment = ₹ 24,000. (4) Amount received on allotment = ₹ 1,56,000. (5) Amount received on 1st call = ₹ 1,20,000 and (6) Amount received on 2nd call = ₹ 1,20,000.]

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(8) Yogesh Co. Ltd., Ambajogai made an issue of 20,000 equity shares of ₹ 20 each, payable as follows :

Application ₹ 5 per share, Allotment ₹ 10 per share, First call ₹ 3 per share, Second and final call ₹ 2 per share.

The company received applications for 25,000 shares of which application for 5,000 shares were rejected and money refunded. All the shareholders paid-up to second and final call, except Dhiraj, the allotee of 200 shares who failed to pay the final call.

Pass journal entries in the books of Yogesh Co. Ltd., Ambajogai.

[**Ans.** (1) Money received on application = ₹ 1,25,000; Money refunded to applicant = ₹ 25,000 and Application money transferred to share capital = ₹ 1,00,000. (2) Money received on allotment = ₹ 2,00,000 and Money transferred to Share Capital = ₹ 2,00,000. (3) 1st call money received = ₹ 60,000. (4) Final call money received = ₹ 39,600. (5) Calls-in-arrears = ₹ 400. (6) Journal total = ₹ 8,50,000.]

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(9) Wadekar and Co. Ltd. made an issue of 40,000 equity shares of ₹ 20 each payable as follows :

Application : ₹ 5 per share   Allotment : ₹ 10 per share
First Call : ₹ 3 per share   Second and final Call : ₹ 2 per share

The company received applications for 54,000 shares of which application for 9,000 shares were rejected and money refunded and money on remaining applications after allotment of 40,000 shares diverted to allotment. All the shareholders paid-up to second call except Savita the allottee of 500 shares failed to pay final call. The expenses of issue amounted to ₹ 5,000.

Pass journal entries and show the Balance Sheet in the books of Wadekar and Co. Ltd.

[**Ans.** (1) Money received on application = ₹ 2,70,000. (2) Money refunded = ₹ 45,000. (3) Excess application money transferred to allotment = ₹ 25,000. (4) Amount received on allotment = ₹ 3,75,000. (5) Money received on 1st call = ₹ 1,20,000. (6) Money received on 2nd and final call = ₹ 79,000. (7) Balance Sheet total = ₹ 7,99,000; Bank balance = ₹ 7,94,000; Miscellaneous expenditure = ₹ 5,000.]

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(10) Navneet Global India Ltd. made an issue of 50,000 shares of ₹ 30 each payable as follows :

On Application : ₹ 7   On Allotment : ₹ 15
On First Call : ₹ 5   On Final Call : ₹ 3

The company received applications for 65,000 shares of which applications for 8,000 shares were rejected and money refunded and money on remaining applications after allotment of 50,000 shares diverted to allotment. The directors made all the calls. One shareholder, holding 150 shares failed to pay first and final call. The expenses of issue amounted to ₹ 6,500.

Pass journal entries and show the Balance Sheet.

[**Ans.** (1) Money received on application = ₹ 4,55,000. (2) Amount refunded = ₹ 56,000. (3) Excess application money transferred to allotment = ₹ 49,000. (4) Amount received on allotment = ₹ 7,01,000. (5) Money received on 1st call = ₹ 2,49,250. (6) Amount received on Final call = ₹ 1,49,550. (7) Calls-in-arrears = ₹ 1,200. (8) Balance Sheet total = ₹ 14,98,800; Bank balance = ₹ 14,92,300; Miscellaneous expenditure = ₹ 6,500.]

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(11) Infinite Ltd. issued 80,000 shares of ₹ 100 each at a discount of 10 % payable as follows :

On Application : ₹ 30 On Allotment : ₹ 30 (Discount)
On First Call : ₹ 20 On Second Call : ₹ 10

Public applied for 1,00,000 shares and the directors made pro-rata allotment to the applicants.

Show the journal of the company assuming that all money was received on allotment and calls.

[**Ans.** (1) Money received on application = ₹ 30,00,000. (2) Excess application money transfer to allotment = ₹ 6,00,000. (3) Money received on allotment of shares = ₹ 18,00,000. (4) Discount on issue of shares = ₹ 8,00,000. (5) Pro-rata allotment for every 4 shares, 5 shares are allotted. (6) Amount received on 1st call = ₹ 16,00,000. (7) Amount received on 2nd call = ₹ 8,00,000.]

---

(12) Modern Co. Ltd. issued 1,00,000 shares of ₹ 50 each, at a discount of 10 % payable as follows :

On Application : ₹ 10 per share On Allotment : ₹ 20 per share (Discount ₹ 5)
On First Call : ₹ 15 per share

Applications were received for 1,25,000 shares and the directors made pro-rata allotment to the applicants for 1,20,000 shares and remaining application money refunded. Show the journal of the Modern Co. Ltd. assuming that all money was received.

[**Ans.** (1) Amount received on application = ₹ 12,50,000. (2) Money refunded = ₹ 50,000. (3) Excess application money transferred to allotment of shares = ₹ 2,00,000. (4) Allotment money received = ₹ 18,00,000. (5) Discount on issue of shares = ₹ 5,00,000. (6) Amount received on 1st call = ₹ 15,00,000.]

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(13) Nandan Co. Ltd. invited applications for 75,000 equity shares of ₹ 100 each to be issued at a premium of ₹ 10 payable on allotment. Amount on shares was called as under :

On Application : ₹ 25 On Allotment : ₹ 40 (Including premium)
On First Call : ₹ 25 On Final Call : ₹ 20

All the shares were applied for and allotted.

Journalise the transactions, assuming that all sums due were received in the books of Nandan Co. Ltd.

[**Ans.** (1) Money received on application = ₹ 18,75,000. (2) Money received on allotment = ₹ 22,50,000. (3) Money received toward share premium = ₹ 7,50,000. (4) Money received for 1st call = ₹ 18,75,000. (5) Money received for final call = ₹ 15,00,000.]

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(14) Ramdev Limited invited applications for 1,00,000 equity shares of ₹ 100 each payable at 20 % premium as under :

On Application : ₹ 30 On Allotment : ₹ 40 (including premium)
On First Call : ₹ 20 On Final Call : ₹ 30

All the shares were applied for and also allotted. One shareholder who was allotted 750 shares failed to pay first and final call.

Record the above transactions in the journal of the company.

[**Ans.** (1) Money received on application = ₹ 30,00,000. (2) Money received on allotment = ₹ 20,00,000. (3) Premium amount received along with allotment money = ₹ 20,00,000. (4) Money received on 1st call = ₹ 19,85,000. (5) Money received on final call = ₹ 29,77,500. (6) Calls-in-arrears = ₹ 37,500.]

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(15) Balaji Industries Ltd. issued 15,000 equity shares of ₹ 100 each. They were payable as follows :

On Application : ₹ 20	On Allotment : ₹ 30
On First Call : ₹ 25	On Second Call : ₹ 25

The company received applications for 12,000 shares. All the applications were accepted and shares were allotted. The company made both the calls.

One shareholder holding 400 shares failed to pay the final call. His shares were forfeited.

Pass journal entries in the books of Balaji Industries Ltd.

[**Ans.** (1) Application money received = ₹ 2,40,000. (2) Allotment money received = ₹ 3,60,000. (3) First call money received = ₹ 3,00,000. (4) 2nd call money rexcelived = ₹ 2,90,000. (5) Share forfeiture amount = ₹ 30,000.]

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(16) Vishal Co. Ltd. issued 60,000 Equity shares of ₹ 100 each payable as under :

On Application : ₹ 20	On Allotment : ₹ 30
On First Call : ₹ 30	On Second Call : ₹ 20

The company received applications for 50,000 equity shares. Share allotment and calls were made as also received except Kamini holding 2,000 share failed to pay both the calls. Her shares were forfeited after second call. Record the above transactions in books of Vishal Co. Ltd.

[**Ans.** (1) Application money received = ₹ 10,00,000. (2) Allotment money received = ₹ 15,00,000. (3) 1st call money received = ₹ 14,40,000. (4) 2nd call money received = ₹ 9,60,000. (5) Calls-in-Arrears = ₹ 1,00,000. (6) Share forfeiture amount = ₹ 1,00,000.]

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(17) Mastram Co. Ltd. invited 80,000 shares of ₹ 100 at a premium of 20 % payable as follows :

On Application : ₹ 25	On Allotment : ₹ 50 (Including premium)
On First Call : ₹ 20	On Second Call : ₹ 25

All the shares were applied for by the public and company called-up allotment and both the calls which were duly received except Reema to whom 1,500 shares were allotted failed to pay allotment and calls. Her shares were forfeited after second call.

Prepare Journal of Millennium Co. Ltd.

[**Ans.** (1) Money received on application = ₹ 20,00,000. (2) Money received on allotment = ₹ 23,55,000. (3) Premium amount received = ₹ 15,70,000. (4) 1st call money received = ₹ 15,70,000. (5) 2nd call money received = ₹ 19,62,500. (6) Allotment and calls-in-arrears = ₹ 1,12,500. (7) Share forfeiture amount = ₹ 37,500.]

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(18) A.G. Co. Ltd. issued 40,000 equity shares of ₹ 100 each at premium of 15 % payable as follows :

On Application : ₹ 25	On Allotment : ₹ 45 (Including premium)
On First Call : ₹ 25	On Second Call : ₹ 20

The company received application for 35,000 shares. All the applications were accepted and shares were allotted. The directors made both the calls.

One shareholders Mrs Pathak holding 600 shares failed to pay the second call. Her shares were forfeited after second call. Pass necessary journal entries in the books of A.G. Co. Ltd.

[**Ans.** (1) Money received on application = ₹ 8,75,000. (2) Money received on allotment = ₹ 10,50,000. (3) Premium amount received = ₹ 5,25,000. (4) 1st call money received = ₹ 8,75,000. (5) Second call money received = ₹ 6,88,000. (6) Amount forfeited = ₹ 48,000.]

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(19) Auto Industries Co. Ltd. issued 40,000 shares of ₹ 10 each at 10% discount payable ₹ 6 on application and remaining on allotment. Public applied for 60,000 shares, Shares were allocated on pro-rata to the application of 50,000 shares and remaining application money refunded. Money overpaid on applications was used for allotment. All the shareholders paid the amount except Megha the allottee of 5,000 shares. Her shares were forfeited. The directors re-issued all the forfeited shares for ₹ 40,000.

Pass the journal entries to record the above transactions in the books of Auto Industries, Co. Ltd.

[**Ans.** (1) Share application money received = ₹ 3,60,000. (2) Amount refunded ₹ 60,000. (3) Excess application money transferred to share allotment = ₹ 60,000. (4) Discount on issue of shares = ₹ 40,000. (5) Allotment money received = ₹ 52,500. (6) Capital reserve = ₹ 32,500 (7) Share forfeiture amount = ₹ 37,500.]

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(20) Mahendra Co. Ltd., issued 50,000 Equity Shares of ₹ 100 each, payable as follows :

On Application : ₹ 25 On Allotment : ₹ 30
On First Call : ₹ 25 On Second Call : ₹ 20

The company received application for 48,000 shares. All the applications were accepted and shares were allotted. The directors made both the calls.

One shareholder Mr Karan holding 400 shares failed to pay the final call. His shares were forfeited and re-issued as fully paid-up at ₹ 70 per share. Pass the journal entries and show Balance Sheet.

[**Ans.** (1) Amount received on application = ₹ 12,00,000. (2) Amount received on allotment = ₹ 14,40,000. (3) Amount received on 1st call = ₹ 12,00,000. (4) Amount received on 2nd call = ₹ 9,52,000. (5) Capital Reserve = ₹ 20,000 (6) Share forfeiture amount = ₹ 32,000.]

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9 ANALYSIS OF FINANCIAL STATEMENTS

SYLLABUS

9.1 Meaning, Objective and Limitations of Financial Statement Analysis
9.2 Tools for Financial Statement Analysis
  9.2.1 (A) Comparative Financial Statements
  9.2.2 (B) Common Size Statements
  9.2.3 (C) Cash Flow Analysis
9.3 Meaning, Objectives and Classification of Accounting Ratios
9.4 Introduction to Ratios : Current Ratio, Liquid Ratio, Gross Profit Ratio, Operating Profit Ratio, Net Profit Ratio, Return On Investment (ROI) and Return On Capital Invested / Employed (ROCE)

BRIEF OVERVIEW

9.1 Meaning, Objective and Limitations of Financial Statement Analysis :

- **Meaning :** The statements which are prepared by the business enterprises periodically to ascertain or measure the profitability, operational efficiency, solvency, growth of the business concern and judge the financial strength and status are called financial statements. These statements furnish a complete picture of the firm's financial conditions and managerial performance. The financial statements are prepared by the profit concerns as well as 'non-profit' concerns usually at the end of the financial year. The financial statements of the business enterprises for an accounting period consist of the following : (1) Balance Sheet / A position statement (2) Profit and Loss A/c / An Income statement.

  Financial statement analysis is a study of financial relationship among the various financial items (factors) and the trend revealed in the financial statements. Thus, analysis of financial statements involves collection and a methodical classification of the data given in the financial statement and a comparison of various figures with each other. Financial statement analysis involves two aspects viz. (i) Analysis of data which means methodical classification of financial statements and (ii) Interpretation of data which means explanation of meaning and significance of data. These two aspects are complementary to each other.

- **Objectives :**

  (1) **To help in planning :** An analysis of financial statements facilitates the business enterprises to understand its financial strength and soundness for future planning.

  (2) **To assist in estimating the earnings of business :** Analysis of financial statements assist in knowing the earning is satisfactory or reasonable return on its investments is there or not. It also gives the idea of profitability of entire organisation and of every department.

  (3) **To assist in investment making decision :** Investors are always eager to know liquidity of the business, ability of repayment of loan and its interest on borrowings which depends on the solvency and profitability of business organisation.

(4) **To help management in assessing the efficiency of the organisation :** Analysis of financial statements helps the business organisations to know the operational efficiency of its management. It also help to judge whether financial policies adopted by the management are appropriate or not.

(5) **To provide financial information about economic resources :** From the accounting data information and financial statements one can know the economic resources of the company.

(6) **To provide information about changes in net resources arising out of business activities :** From the financial statements one can know the net resources like payment of salary, wages, bonus and incomes sources.

(7) **To disclose other information that is relevant to the need of the users of the financial statements :** Financial statements also disclose other information which may useful to the government, employees, creditors, investors, etc.

- **Limitations :** Analysis of financial statements depends upon the data and information provided by the organisation.

(1) **Qualitative information are ignored :** The financial statements consider only the monetary aspects which can be measured. These statements ignores the qualitative, aspects such as development of team of loyal and efficient workers, harmony, reputation, prestige and efficiency of management competition, etc. There are some of the important matters which need to be considered for the business prospects.

(2) **Historical cost :** The information provided by the financial statements are historical in nature. This is because it considers and uses historical cost and book values of assets. It altogether fails to consider the changes that take place in price level.

(3) **Based on accounting concepts and conventions :** Financial statements are prepared on the basis of certain accounting concepts and convention, so financial position as disclosed by these statements may not be realistic and their analysis cannot be much useful in practical life.

(4) **Influenced by personal judgement :** In the analysis of financial statement, many items are left for the personal judgement of an accountant. For instance, selection of method of depreciation, inventory valuation, writing off deffered revenue expenditure, etc. The soundness and reliability of such judgement depend on the competence, experience, ability and honesty of an accountant. However, convention of consistency acts as a controlling factor on making indiscreet personal decisions.

(5) **Being uncomparable :** Differences in date of preparation, nature of business, age of business, method of accounting, monopolistic market, etc. make the financial statement uncomparable.

(6) **Static statement :** Financial statements represents absolute figure which are static in nature and do not present the process by which the figures are arrived.

(7) **Affected by window dressings :** Sometimes management try to show excellent picture of business through financial statements which is not actually acceptable. e.g. To show excellent profit, sales figures may be taken at increased value, closing stock may be overvalued, last moment purchase not disclosed, etc. This is known as window dressing.

From the above discussion one can say that financial statements should not be taken as true indicator of financial strength and weakness of the business and do not take any serious decision based on it.

- **Analysis of Financial Statements :**

Balance Sheet : The Balance Sheet required to be arranged in vertical format which is suitable for further analysis. Its format is given below :

.... Company Ltd.
Balance Sheet as on ....

Particulars	Amount (₹)	Amount (₹)
(I) Sources of Funds		
(A) Owners Fund / Shareholders Fund		
(a) Share Capital		
Equity Share Capital	XXX	
Preference Share Capital	XXX	
(b) Add : Reserves and Surplus		
Profit & Loss A/c	XXX	
General Reserve / Reserve Fund	XXX	
Securities Premium	XXX	
(c) Less : Fictitious Assets e.g. Preliminary exp.	(XXX)	
Large-scale advertisement exp. etc.	(XXX)	
Net Worth / Owners Fund		XXX
(B) Borrowed Funds		
Bank Loan	XXX	
Debentures	(XXX)	
Third Party Loans	(XXX)	
Total Fund Available		XXX
(II) Application of Funds		
(1) Fixed Assets		
Land and Building	XXX	
Plant and Machinery	XXX	
Furniture	XXX	
Vehicle etc.	XXX	XXX
(2) Investment (In any form)		XXX
(3) Working Capital		
Current Assets		
Quick Assets		
Cash Balance	XXX	
Bank Balance	XXX	
Debtors / Customers	XXX	
Bill Receivable	XXX	
Total Quick Assets		XXX
Non-Quick Assets		
Stock	XXX	
Prepaid Expenses	XXX	
Advances	XXX	XXX

Total Nonquick Assets		
Total Current Assets (Quick + Non-Quick Asset)		XXX
Less Current Liabilities		
Quick Liabilities		
Creditors / Traders / Suppliers	XXX	
Outstanding Expenses	XXX	
Bills Payable	XXX	XXX
Total Current Liability		
Non-Quick Liability		
Bank Overdraft	XXX	XXX
Total Current Liabilities		
Working Capital (Current Assets Less Current Liabilities)		XXX
Total Funds Employed / Applied		XXX

Income Statement : The Profit and Loss Account need to be arranged in a vertical format which is suitable for further analysis. It is also called as Vertical income statement. Its format is given below :

-------------------- Company Ltd.
Vertical Income Statement for the year ended

Particulars	Amount (₹)	Amount (₹)
Income		
Sales	XXX	
Less : Sales Return	XXX	
Net Sales		XXX
Less : Cost Of Goods Sold (COGS)		
Opening Stock	XXX	
Add : Purchases	XXX	
Add : Wages	XXX	
Add : Carriage Inward	XXX	
Add : Direct Exp.	XXX	
Less : Closing Stock	XXX	
Net Cost of Goods Sold		XXX
Gross Profit (Net Sales – Net Cost of Goods Sold)	XXX	
Less : Operating Exp.		
(a) Administrative Exp.	XXX	
(b) Finance Exp.	XXX	
(c) Selling Exp.	XXX	
Total Operating Expenses		XXX
Operating Profit (Gross Profit – Operating Expenses)		XXX
Add : Non-operating Income		XXX
Less : Non-operating Exp.		(XXX)
Net Profit Before Tax		XXX
Less : Tax (Charged on Net Profit Before Tax)		XXX
Net Profit After Tax		XXX

9.2. Tools for Financial Statement Analysis : The financial statements provide only figures of assets, liabilities, expenses, revenues, profit or loss of the business. For decision making only presentation and ascertainment of the figures are not sufficient. In order to make decision making easier and meaningful, analysis of financial statement is required. For analysis of financial statement various tools such as (i) Comparative Financial Statements, (ii) Common Size Statements, (iii) Cash Flow Analysis, (iv) Ratio Analysis are used.

9.2.1 (A) Comparative Financial Statements : The financial statements which contain the figures of two or more consecutive accounting periods to give comparative views of the financial performance and position of a business enterprise are called Comparative Financial Statements. In these statements, the figures for two or more successive years are placed side by side to facilitate comparison. Accordingly, horizontal or comparative analysis means a process of calculating in absolute figures or in percentage form, the changes from the comparative statements.

For this purpose following two statements are required : (1) Comparative Balance Sheet and (2) Comparative Income Statement.

(1) Comparative Balance Sheet : The comparative Balance Sheet contains the figures of liabilities and assets of the current year and the previous years to facilitate easy comparison. Such comparative statements indicate the trend (increase or decrease) of the changes in the financial performance and position of the business enterprises.

Methods of preparing Comparative Balance Sheet :

Comparative Balance Sheet is prepared by comparing the individual items of Assets and Liabilities and finding out absolute and percentage increase or decrease in them.

Steps to prepare Comparative Balance Sheet :

(1) Enter the details of Assets and Liabilities in the first column.

(2) In the column number 2 and column number 3 enter the figures of previous year and current year Balance Sheet respectively.

(3) In column number 4 enter the absolute changes i.e. 'Increase' or 'Decrease' by comparing the figures of column 2 and column 3.

Absolute change = Current year – Previous year.

(4) Record the percentage changes in fifth column.

$$\text{Percentage change} = \frac{\text{Absolute change}}{\text{Amount of previous year}} \times 100$$

Example No. 1 : Balance Sheet of 'X' Ltd. Co. for the year ending 31st March, 2019 and 31st March, 2020 is given below :

Liabilities	31 – 03 – 19 (₹)	31 – 03 – 20 (₹)	Assets	31 – 03 – 19 (₹)	31 – 03 – 20 (₹)
Share Capital	3,00,000	4,20,000	Fixed Assets	4,00,000	6,50,000
Reserve and Surplus	50,000	90,000	Investments	1,00,000	1,30,000
Secured Loans	90,000	1,40,000	Current Assets	1,50,000	1,00,000
Unsecured Loans	80,000	1,30,000			
Current Liabilities	1,30,000	1,00,000			
	6,50,000	8,80,000		6,50,000	8,80,000

You are required to prepare Comparative Balance Sheet of 'X' Ltd. Co. as on 31st March, 2019 and 31st March, 2020.

Solution : **Comparative Balance Sheet of 'X' Ltd. Co. as on 31st March, 2019 and 31st March, 2020.**

Particulars	(1) 31 – 03 – 2019 (₹)	(2) 31 – 03 – 2020 (₹)	(3) Absolute change (₹)	(4) Percentage change
A. Fixed Assets	4,00,000	6,50,000	+ 2,50,000	62.5 % (Increase)
Investments	1,00,000	1,30,000	+ 30,000	30 % (Increase)
Current Assets	1,50,000	1,00,000	– 50,000	33.33 % (Decrease)
Total :	6,50,000	8,80,000	+ 2,30,000	35.39 % (Increase)
B. Share Capital	3,00,000	4,20,000	+ 1,20,000	40 % (Increase)
Reserve and Surplus	50,000	90,000	+ 40,000	80 % (Increase)
Secured Loans	90,000	1,40,000	+ 50,000	55.56 % (Increase)
Unsecured Loans	80,000	1,30,000	+ 50,000	62.5 % (Increase)
Current Liabilities	1,30,000	1,00,000	– 30,000	23.08 % (Decrease)
Total :	6,50,000	8,80,000	+ 2,30,000	35.39 % (Increase)

(2) Comparative Income Statement : A comparative income statement i.e. Profit and Loss Account contains the figures of expenses and incomes of the current year and the previous year for easy comparision.

Comparative income statement shows increase or decrease in various Trading and Profit and Loss Account.

Steps to prepare comparative income statement :

(1) Record the amount of Income and Expenditure in first column.
(2) Record the figures of previous year income statement in second column.
(3) Record the figures of current year income statement in third column.
(4) Record the absolute changes i.e. diffrence between current year and previous year in fourth column.
(5) Absolute change = Current year – Previous year.
(6) Record the percentage changes in fifth column.

$$\text{Percentage change} = \frac{\text{Absolute change}}{\text{Amount of previous year}} \times 100$$

Example No. 2 : **Income Statement of 'X' Ltd. Co. for the year ending 31st March, 2019 and 31st March, 2020 is given below :**

Particulars	31 – 03 – 2019 (₹)	31 – 03 – 2020 (₹)
Sales	5,00,000	8,00,000
Less : Cost of Sales.	3,20,000	5,60,000
Gross Profit	1,80,000	2,40,000
Less : Indirect Expenses	70,000	90,000
Net Profit before Tax	1,10,000	1,50,000
Less : Income Tax 50 %	55,000	75,000
Net Profit after Tax	55,000	75,000

You are required to prepare Comparative Income Statement of 'X' Ltd. Co. for the year ended 31st March, 2019 and 31st March, 2020.

Solution : **Comparative Income Statement of 'X' Ltd. Co. for the year ended 31st March, 2019 and 31st March, 2020 :**

Particulars	(1) 31 – 03 – 2019 (₹)	(2) 31 – 03 – 2020 (₹)	(3) Absolute change (₹)	(4) Percentage change
Sales	5,00,000	8,00,000	+ 3,00,000	60 % (Increase)
Less : Cost of Sales	3,20,000	5,60,000	+ 2,40,000	75 % (Increase)
Gross Profit	1,80,000	2,40,000	+ 60,000	33.33 % (Increase)
Less : Indirect Expenses	70,000	90,000	+ 20,000	28.57 % (Increase)
Net Profit before Tax	1,10,000	1,50,000	+ 40,000	36.36 % (Increase)
Less : Income Tax (50 %)	55,000	75,000	+ 20,000	36.36 % (Increase)
Profit after Tax	55,000	75,000	+ 20,000	36.36 % (Increase)

9.2.2. (B) Common Size Statement : Common Size Statement is a type of financial analysis in which the financial statements of the same period are compared and figures of each item are converted into percentage of some common figure or base. In this analysis, the income statement and position statement of two consecutive years of the same organisation or income and position statements of two similar units for the same period are used to draw useful conclusions.

For common size statement analysis, in Income statement usually the sales figure is taken as base, i.e. 100. All the other figures are converted into percentage form to sales. In position statement, the total assets and the total liabilities are taken as base, i.e. 100 each. All the figures on the respective sides are expressed in percentage to the total assets and the total liabilities respectively to draw meaningful conclusions.

Steps to prepare common size statements :

(1) Write absolute figures of each item of Balance Sheet or of Income Statement for two consecutive years.

(2) Select (choose) common base (as 100), e.g. in case of income statement sales figure as 100.

(3) Work out percentage of each item for two periods.

Specimen of Common Size Statement

Particulars (1)	Year 1 (2)	Percentage (3)	Year 2 (4)	Percentage (5)

Example No. 3 : Balance Sheet of 'Y' Ltd. Co. for the year ending 31st March, 2019 and 31st March, 2020 is given below :

Liabilities	31 – 03 – 19 (₹)	31 – 03 – 20 (₹)	Assets	31 – 03 – 19 (₹)	31 – 03 – 20 (₹)
Equity Share Capital	9,00,000	10,00,000	Fixed Assets	13,00,000	10,00,000
Preference Share Capital	1,00,000	90,000	Investments	2,30,000	1,50,000
Reserve and Surplus	70,000	1,50,000	Current Assets	4,70,000	6,50,000
Secured Loans	4,00,000	3,00,000			
Unsecured Loans	3,00,000	1,60,000			
Current Liabilities	2,30,000	1,00,000			
	20,00,000	18,00,000		20,00,000	18,00,000

You are required to prepare common size statements for the year ending 31st March, 2019 and 31st March, 2020.

Solution :

Common size statements for the year ending 31st March, 2019 and 31st March, 2020

Particulars (1)	31 – 03 – 2019 (2) (₹)	% (3)	31 – 03 – 2020 (4) (₹)	% (5)
A. Fixed Assets	13,00,000	65 %	10,00,000	55.56 %
Investments	2,30,000	11.5 %	1,50,000	8.33 %
Current Assets	4,70,000	23.5 %	6,50,000	36.11 %
Total Assets :	20,00,000	100 %	18,00,000	100 %
B. Equity Share Capital	9,00,000	45 %	10,00,000	55.56 %
Preference Share Capital	1,00,000	5 %	90,000	5.00 %
Reserve and Surplus	70,000	3.5 %	1,50,000	8.33 %
Secured Loans	4,00,000	20 %	3,00,000	16.67 %
Unsecured Loans	3,00,000	15 %	1,60,000	8.89 %
Current Liabilities	2,30,000	11.5 %	1,00,000	5.55 %
Total Liabilities :	20,00,000	100 %	18,00,000	100.00 %

Working Notes :

$$\% \text{ of Fixed Assets} = \frac{\text{Value of fixed assets}}{\text{Total assets}} \times 100$$

$$\% \text{ of Fixed Assets for } 31-03-2019 = \frac{13,00,000}{20,00,000} \times 100 = 65\ \%$$

$$\% \text{ of Fixed Assets for } 31-03-2020 = \frac{10,00,000}{18,00,000} \times 100 = 55.56\ \%$$

$$\% \text{ of Equity Share Capital for } 31-03-2019 = \frac{\text{Value of equity share capital}}{\text{Total liabilities}} \times 100$$

$$= \frac{9,00,000}{20,00,000} \times 100 = 45\ \%$$

$$\% \text{ of Equity Share Capital for } 31-03-2020 = \frac{10,00,000}{18,00,000} \times 100 = 55.56\ \%$$

Example No. 4 : **Income statements for the year ending 31st March, 2019 and 31st March, 2020 are given below :**

Particulars	31 – 03 – 2019 (₹)	31 – 03 – 2020 (₹)
Net Sales	10,00,000	12,00,000
Less : Cost of Goods Sold	5,80,000	6,20,000
Gross Profit	4,20,000	5,80,000
Less : Office and Administrative Expenses	1,05,000	1,20,000
Less : Selling and Distribution Expenses	1,10,000	1,30,000
Net Profit	2,05,000	3,30,000

Solution :

Common Size Statement for the year ending 31st March, 2019 and 31st March, 2020 :

Particulars (1)	31 – 03 – 2019 (2) (₹)	% (3)	31 – 03 – 2020 (4) (₹)	% (5)
Net Sales	10,00,000	100 %	12,00,000	100 %
Less : Cost of Goods Sold	5,80,000	58 %	6,20,000	57.67 %
Gross Profit :	4,20,000	42 %	5,80,000	48.33 %
Less : Office and Administrative Expenses	1,05,000	10.5 %	1,20,000	10.00 %
Less : Selling and Distribution Expenses	1,10,000	11.0 %	1,30,000	10.83 %
Net Profit :	2,05,000	20.5 %	3,30,000	27.50 %

Working Notes :

Here base or aggregate is net sales. In the year ending 31 – 03 – 2019 Net sales ₹ 10,00,000 is taken as base i.e. 100 % and in the ending 31 – 03 – 2020 Net sales ₹ 12,00,000 is taken as base i.e. 100 %.

For 31 – 03 – 2019 % of cost of goods sold $= \frac{\text{Cost of goods sold}}{\text{Net sales}} \times 100 = \frac{5,80,000}{10,00,000} \times 100 = 58\ \%$

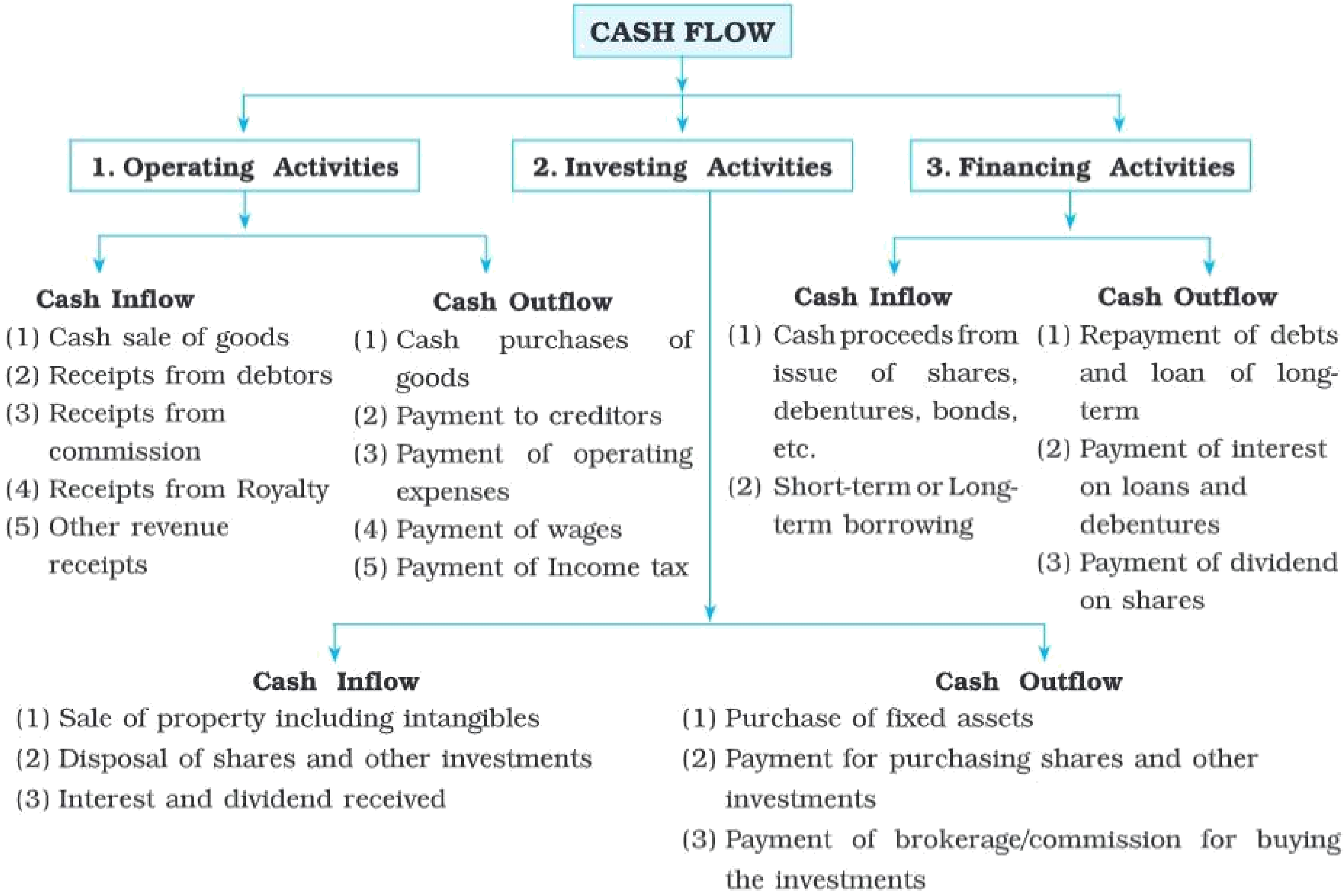
For 31 – 03 – 2020 % of cost of goods sold $= \frac{6,20,000}{12,00,000} \times 100 = 51.67\ \%$

- **Benefits or advantages of common size statements :**
  (1) Common size statements are very useful for comparing the profitability. It gives the different trends in different items of Balance Sheet and Income statement.
  (2) It is also useful for inter firm comparison i.e. comparison of income and position statements of two similar units in the organisation for the same period.

9.2.3 (C) Cash Flow Analysis : A statement which shows the inflows (receipts) and outflows (payments) of cash and cash equivalents of a business enterprise over a financial year, is called a cash flow statement. It indicates the different sources from which the cash comes into the business and the different uses to which the cash has been put. It helps the management in assessing the potential of the business enterprise in paying short-term loans. It is prepared month-wise to ascertain the cash available for various business purposes.

- **Steps to Prepare Cash Flow Statement :** In Cash Flow Statement its 'inflow' and 'outflow' of Cash and Cash equivalents are grouped into :
  (i) Cash flow from operating activities
  (ii) Cash flow from investing activities
  (iii) Cash flow from financing activities

  This is shown in the following diagram (chart) :



CASH FLOW

1. Operating Activities

Cash Inflow
(1) Cash sale of goods
(2) Receipts from debtors
(3) Receipts from commission
(4) Receipts from Royalty
(5) Other revenue receipts

Cash Outflow
(1) Cash purchases of goods
(2) Payment to creditors
(3) Payment of operating expenses
(4) Payment of wages
(5) Payment of Income tax

2. Investing Activities

Cash Inflow
(1) Sale of property including intangibles
(2) Disposal of shares and other investments
(3) Interest and dividend received

Cash Outflow
(1) Purchase of fixed assets
(2) Payment for purchasing shares and other investments
(3) Payment of brokerage/commission for buying the investments

3. Financing Activities

Cash Inflow
(1) Cash proceeds from issue of shares, debentures, bonds, etc.
(2) Short-term or Long-term borrowing

Cash Outflow
(1) Repayment of debts and loan of long-term
(2) Payment of interest on loans and debentures
(3) Payment of dividend on shares

- **Importance of cash flow statement :**
  (1) **Useful in short-term financial planning and decision making :** Cash flow statement provide information on uses of cash and cash equivalents for particular period. It is useful to prepare short-term financial planning and decision making on different areas.
  (2) **Helps in analysis of liquidity position :** Cash flow statement may be prepared on monthly or quarterly basis. It helps to understand liquidity of the firm in better way. Such analysis of liquidity is useful to bank and financial institutions as it show ability of firm to repay Loans.
  (3) **Helps in efficient cash management :** Cash flow statement provides information on surplus or defect of cash. If there is surplus, management makes arrangement for its investment and for deficit if any it arranges for short-term credit or loan.
  (4) **Helps in comparative study of cash flow statement and cash budget :** Cash flow statement and cash budget are compared and cause of difference between them are analysed and necessary corrective measures are taken by the firm to generate or use cash.
  (5) **Helps in study of receipts and payments of cash :** Cash flow statement gives information of the speed at which cash is collected from debtors, stock and other current assets and the speed at which current liabilities like creditors, Bank overdraft, etc. are paid off. This helps management to find true position of cash in future.

(6) **Helpful in dividend declaration and payment of dividend :** From cash flow statement, management ascertains the position of cash for payment of dividend.

(7) **Tools of planning for projecting future investments and financial plans :** Cash flow statement is useful to the management for projecting future investing and financial plans for the business.

- **Presentation of Cash Flow Statement :** As per AS – 3 format for presentation of cash from statement by classifying business transactions of a specific period into three categories viz. Operating, Investing and Financing is as follows :
- **Uses of Cash Flow Statement :**

(1) Cash flow statement facilitates the business organisation to know the liquidity position of the business.

(2) It helps to understand how net profit has increased even though cash balance is decreased.

(3) It also helps to know how cash balance has increased even though firm incurred net loss.

(4) It facilitates the business firm to know how the requirements of working capital were met by the fund raised through current operations.

(5) It helps to know the external sources of raising finance to meet needs of finance.

(6) It helps the firm to understand whether the firm sells its non-current assets or not.

Format of Cash Flow Statement for the year ended ....

Particulars	(₹)	(₹)
(I) Cash flow from Operating activities		
Net profit of current year	XXX	
(Adjust non-cash / non-operating items)		
Add : Depreciation written off	XXX	
Interest / Dividend paid	XXX	
Loss on sale of Asset	XXX	
Proposed dividend of current year	XXX	
Taxation provision of current year	XXX	
Fictitious asset written off	XXX	
Gradual written off of intangible asset	XXX	
Less : Profit on sale of assets / Investments	XXX	
Interest / Dividend received on investment	XXX	
Rent income of assets.	XXX	
(operating profit) Adjust working capital changes		
Add : Decrease in current assets	XXX	
Increase in current liabilities	XXX	
Less : Increase in current assets	XXX	
Decrease in current liabilities	XXX	
Cash generated from operations		XXX
(II) Cash flow from Investing activities		
Add : Interest / Dividend / Rent received	XXX	
Sale of assets (Tangible / Intangible)	XXX	
Sale of non-current investments	XXX	
Less : Purchase of fixed asset / Investment	XXX	
Net cash from Investing activities		XXX

(III) Cash flow from Financing activities :		
Add : Issue of shares / debentures	XXX	
Loan borrowed / proceeds from long-term borrowings	XXX	
Increase in bank overdraft and cash credit (Short-term borrowings)	XXX	
Less : Redemption of shares / debentures	XXX	
Repayment of loan	XXX	
Interest paid on debentures / loan	XXX	
Interim / Final dividend paid	XXX	
Net cash from financial activities		XXX
Add : Opening Cash / Bank balances		XXX
Closing cash / Bank balance		XXX

9.3. Meaning, Objectives and Classification of Accounting Ratios :

(1) Meaning : A relationship between two numbers or quantities, when expressed either in number, fraction, proportion or in percentage is called ratio. Accounting ratio expresses the relationship between two accounting figures and measures the ability i.e. financial strength of the business enterprise to pay its liabilities and judge its earning capacity. The use of different types of accounting ratios to evaluate the financial performance of the business enterprise, is called the ratio analysis.

Example : If total sales is ₹ 5,15,500, Sales returns is ₹ 5,500 and Gross profit is ₹ 1,27,500, calculate Gross Profit ratio.

Solution : Net sales = Total sales – Sales returns

= 5,15,500 – 5,500 = ₹ 5,10,000

$$\text{Gross Profit ratio} = \frac{\text{Cross profit}}{\text{Net sales}} \times 100 = \frac{1{,}27{,}500}{5{,}10{,}000} \times 100 = 25\ \%$$

(2) Objectives : The objectives of ratios are explained as follows :

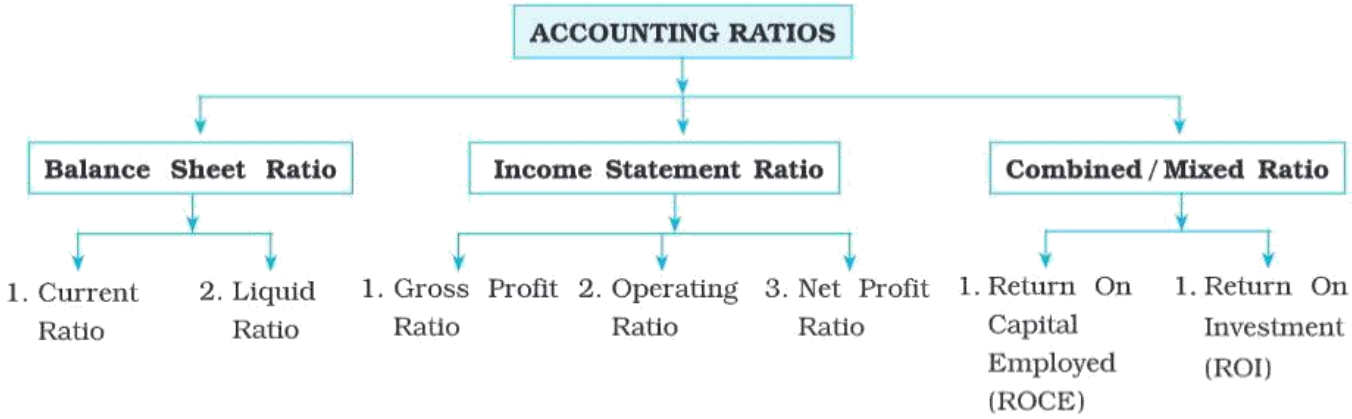
(1) It facilitates easy comparative analysis of profitability, liquidity and solvency of the business.

(2) It is helpful to know the changes that take place in the business.

(3) It helps in decision making in vital areas such as operating, investing and financing. It shows how far it is helpful to improve the performance.

(4) It is helpful to make different types of comparisons like (i) Intra firm comparison i.e. comparison within the firm over number of years and (ii) Inter firm comparison i.e. comparison between two firms when specific standard for the firms or industry is established.

(3) Classification : The classification of ratio is shown in the following chart :


ACCOUNTING RATIOS
Balance Sheet Ratio
Income Statement Ratio
Combined / Mixed Ratio
1. Current Ratio
2. Liquid Ratio
1. Gross Profit Ratio
2. Operating Ratio
3. Net Profit Ratio
1. Return On Capital Employed (ROCE)
1. Return On Investment (ROI)

9.4. Introduction to Ratios :

(1) Current Ratio : The ratio of current assets to the current liabilities is called Current ratio. This ratio measures the ability of the business enterprise to fulfil the current obligations. It is one of the indicators which judges the financial position of a business enterprise. The current ratio between 2 : 1 to 3 : 1 is considered more satisfactory or ideal. The ratio of 2 : 1 indicates that the current assets are twice the current liabilities. The formula for calculating the current ratio is given below :

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

*(Where the **current assets** include cash and bank balance, loose tools, bills receivable, sundry debtors, stock of inventories, i.e. raw-materials, semi-finished and finished goods, prepaid expenses, marketable securities, short-term loans and advances given, incomes accrued, disposable investments, etc.*

*The **current liabilities** include sundry creditors, bills payable, bank overdraft, dividend and taxes payable, outstanding expenses, debentures payable within a year, short-term loan taken, provision for taxation, proposed and unclaimed dividend, income pre-received i.e. income received in advance, etc.)*

(2) Liquid Ratio (Quick Ratio or Acid Test Ratio) : The ratio of quick assets to current libilities is called Quick ratio or Acid test ratio. The assets which can be converted into cash immediately, or at a short notice are called Quick assets. All current assets except stock and prepaid expenses are considered as quick assets. Quick ratio of 1 : 1 is considered as an ideal ratio. It measures the liquidity position of business enterprise.

The formula for calculating liquid ratio is given below :

$$\text{Liquid or Acid test ratio} = \frac{\text{Quick assets}}{\text{Current liabilities}}$$

(Where Liquid or Quick assets = Cash + Bank balance + Debtors + Bills receivable + Marketable securities)

$$\text{Quick Ratio} = \frac{\text{Quick assets}}{\text{Quick liabilities}}$$

(Where Quick liabilities = Current liabilities Less Bank overdraft, Advance received and Cash credit.)

(3) Gross Profit (Turnover) Ratio : Gross profit ratio indicates the relation of the gross profit to the net sales. It is expressed in the percentage form. It is calculated to measure the efficiency of the production department. It is calculated by using the following formula :

$$\text{Gross Profit ratio} = \frac{\text{Gross profit}}{\text{Net sales}} \times 100$$

[Where (i) Gross profit = Net sales – Cost of the goods sold.
(ii) Net sales = Total sales – Sales returns.
(iii) Cost of Goods sold = Opening stock + Purchases + Direct expense – Closing stock]

It shows the gross margin on commodity sold. Higher gross profit ratio shows good position of business.

(4) Operating Profit Ratio : Operating profit ratio measures the relationship between operating profit and net sales.

$$\text{Operating Profit ratio} = \frac{\text{Operating Profit}}{\text{Net Sales}} \times 100$$

Where Operating Profit = Gross Profit – Operating Expenses.

Net sales = Sales – Return – Allowances

Expenses may be categorised into two parts viz. (i) Operating expenses and (ii) Non-operating expenses.

Operating Expenses : Expenses which are incurred by the business enterprises for routine operation of the business are called operating expenses. They include office expenses, administrative expenses, selling and distribution expenses, etc. When such expenses are deducted from gross profit, we get operating profit.

Non-operating Expenses : Non-operating expenses include depreciation charged on fixed assets, loss incurred on sale of fixed asset or investment, loss by fire, goodwill written off, discount on issue of shares and debentures, preliminary expenses, etc.

(5) Net Profit Ratio : The net profit ratio shows the relationship between the net profit and the net sales. It is expressed in percentage form. This ratio is helpful to measure the over-all efficiency of the business enterprise. The formula to calculate the net profit ratio is given below :

(a) Net Profit Ratio $= \frac{\text{Net profit}}{\text{Net sales}} \times 100$ (b) Net Profit Ratio $= \frac{\text{Net Profit Before Tax}}{\text{Net sales}} \times 100$

(c) Net Profit Ratio $= \frac{\text{Net Profit After Tax}}{\text{Net sales}} \times 100$

(Where Net profit = Gross profit + Non-operating incomes – Operating expenses – Non-operating expenses.)

Non-operating income includes income from non-trading activities, e.g. interest received, dividend received, any compensation received, refund of tax, profit on sale of fixed assets and investments. For calculating this ratio, Net profit may be taken either before tax paid or net profit after tax paid. The main aim of this ratio is to understand return on investment.

Operating Ratio : The ratio which expresses the relationship between total operating costs and net sales is called operating ratio. This ratio is expressed in percentage form.

Operating Ratio $= \frac{\text{Cost of Goods Sold + Operating Expenses}}{\text{Net sales}} \times 100$

Where Cost of goods sold = Opening stock + Purchases + Wages – Closing stock

Operating Expenses = Office and Administrative expenses + Selling and distribution expenses + Finance expenses (excluding interest on Loans and debentures)

Net sales = Sales – Returns – Allowances.

(6) Return On Investment (ROI) : This ratio indicates the relationship between the profit before interest and tax and total investment of the business enterprise. This ratio is computed to measure the over-all efficiency or profitability of the business enterprise. This ratio is computed by using the following formula :

Return On Investment ratio $= \frac{\text{Profit before interest, tax and dividend}}{\text{Capital employed}} \times 100$

Where Capital investment or Capital employed = Equity share capital + Preference share capital + Reserve and Surplus + Debenture capital + Other-long term loan. OR We can use the following formula to calculate capital employed

Capital employed = Fixed assets + Current assets – Current liabilities.

This ratio indicates the ability of the company to generate the profit per rupee of capital employed.

(7) Return On Capital Employed (ROCE) : This ratio indicates the relationship between Net profit before interest and tax and Net capital employed by the proprietor. In case of the company net capital employed refers to shareholders' capital, i.e. the funds supplied by equity shareholders and Preference shareholders. It is computed by using the following formula :

$$\textbf{Return On Capital Employed} = \frac{\text{Net profit before interest and tax}}{\text{Net capital employed or equity}}$$

Net Capital Employed = Total assets – Current liabilities

= Fixed assets + Current assets – Current liabilities.

This ratio indicates whether shareholders' fund is efficiently used or not. As far as possible Return On Capital Employed ratio should be higher than Return On Investment ratio.

SOLVED PROBLEMS (Ratio)

(1) Calculate Current Ratio :

Debtors = ₹ 90,000, Creditors = ₹ 30,000, Bills receivables = ₹ 10,000, Bills payable = ₹ 12,000, Stock of goods = ₹ 40,000, Short-term loan = ₹ 40,000, Outstanding expenses = ₹ 14,000, Cash balance = ₹ 70,000, Machinery = ₹ 1,00,000, Current investments = ₹ 25,000, Non-current investments = ₹ 25,000, Loose tools = ₹ 15,000, Bank overdraft = ₹ 29,000.

Solution :

Current assets = Debtors + Bills receivable + Stock of goods + Cash balance + Current investments + Loose tools.

= 90,000 + 10,000 + 40,000 + 70,000 + 25,000 + 15,000

= ₹ 2,50,000

Current liabilities = Creditors + Bills payable + Short-term loan + Outstanding expenses + Bank overdraft.

= 30,000 + 12,000 + 40,000 + 14,000 + 29,000

= ₹ 1,25,000

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

$$= \frac{2{,}50{,}000}{1{,}25{,}000} = 2 : 1$$

Note : Machinery and Non-current investment are to be committed as it is not to be included in current assets.

(2) Calculate Quick Ratio :

Working capital = ₹ 1,70,000, Prepaid expenses = ₹ 10,000, Inventory / Stock = ₹ 15,000, Prepaid expenses = ₹ 10,000, Current liabilities = ₹ 1,25,000, Bank overdraft = ₹ 35,000

Solution :

Current assets = Current liabilities + Working capital

= 1,25,000 + 1,70,000

= ₹ 2,95,000

Quick assets = Current assets – Inventory – Prepaid expense

= 2.95,000 – 15,000 – 10,000

= ₹ 2,70,000

Quick liabilities = Current liabilities – Bank overdraft

= 1,25,000 – 35,000

= ₹ 90,000

$$\text{Quick ratio} = \frac{\text{Quick assets}}{\text{Quick liabilities}}$$

$$= \frac{2{,}70{,}000}{90{,}000} = 3 : 1$$

(3) Calculate Gross Profit Ratio :

Opening stock = ₹ 20,000, Closing stock = ₹ 25,000, Purchases = ₹ 1,00,000, Purchase return = ₹ 10,000, Sales = ₹ 2,25,000, Sales return = ₹ 15,000, Direct expenses = ₹ 20,000.

Solution :

Cost of goods sold = Opening stock + Purchases – Purchase return + Direct expenses – Closing stock

= 20,000 + 1,00,000 – 10,000 + 20,000 – 25,000

= ₹ 1,30,000 – 25,000 = ₹ 1,05,000

Net sales = Sales – Sales return

= 2,25,000 – 15,000

= ₹ 2,10,000

Gross profit = Net sales – Cost of goods sold

= 2,10,000 – 1,05,000

= ₹ 1,05,000

$$\text{Gross Profit ratio} = \frac{\text{Gross profit}}{\text{Net sales}} \times 100$$

$$= \frac{1{,}05{,}000}{2{,}10{,}000} \times 100 = 50\,\%$$

(4) Calculate Gross Profit Ratio :

Sales ₹ 9,00,000, Gross profit ratio 20 % on cost.

Solution :

Gross profit is 20 % on cost.

∴ Goods costing ₹ 100 must have been sold for ₹ 120. Hence, if sales is ₹ 120, gross profit is ₹ 20.

If sales is ₹ 9,00,000 then Gross profit = ?

$$\therefore \text{Gross profit} = 9{,}00{,}000 \times \frac{20}{120} = ₹\ 1{,}50{,}000$$

$$\therefore \text{Gross profit ratio} = \frac{\text{Gross profit}}{\text{Net sales}} \times 100$$

$$= \frac{1{,}50{,}000}{9{,}00{,}000} \times 100$$

$$= 16.67\,\%$$

(5) Calculate Net Profit Ratio :

Sales = ₹ 10,00,000, Cost of goods sold = ₹ 4,20,000, Indirect expenses = ₹ 30,000, Administrative expenses = ₹ 1,00,000, Selling and Distribution expenses = ₹ 80,000, Interest on debentures shares = ₹ 40,000.

Solution :

Gross profit = Sales – Cost of goods sold

= 10,00,000 – 4,20,000

= ₹ 5,80,000

Net profit = Gross profit – Administrative expenses – Selling and Distribution expenses – Indirect expenses – Interest on debentures

= 5,80,000 – 1,00,000 – 80,000 – 30,000 – 40,000

= ₹ 3,30,000

$$\text{Net profit ratio} = \frac{\text{Net profit}}{\text{Sales}} \times 100$$

$$= \frac{3,30,000}{10,00,000} \times 100 = 33\ \%$$

(6) Calculate Operating Ratio :

Trading and Profit and Loss A/c of Kalpana for the year ending 31st March, 2019.

Dr. **Trading and Profit and Loss A/c** **Cr.**

Particulars		Amount (₹)	Particulars		Amount (₹)
To Opening Stock		40,000	By Sales	8,00,000	
To Purchases	4,40,000		Less : Sales Return	30,000	7,70,000
Less : Pur. Ret.	40,000	4,00,000	By Closing Stock		60,000
To Gross Profit c/d		3,90,000			
		8,30,000			8,30,000
To Administrative Expense		50,000	By Gross Profit b/d		3,90,000
To Selling and Distribution Expense		60,000			
To Net Profit		2,80,000			
		3,90,000			3,90,000

Solution :

Cost of goods sold = Net sales – Gross profit
= 7,70,000 – 3,90,000
= ₹ 3,80,000

Operating expenses = Adm. exp. + Selling and Distribution expenses
= 50,000 + 60,000
= ₹ 1,10,000

$$\text{Operating ratio} = \frac{\text{Cost of goods sold} + \text{Operating expense}}{\text{Net sales}} \times 100$$

$$= \frac{3,80,000 + 1,10,000}{7,70,000} \times 100$$

$$= \frac{4,90,000}{7,70,000} \times 100$$

$$= 63.64\ \%$$

EXERCISE

(A) Select the most appropriate alternatives from the following and rewrite the sentences :

* (1) (1) Gross Profit Ratio indicates the relationship of gross profit to the ....

(a) Net cash *(b) Net sales* *(c) Net purchases* *(d) Gross sales*

(2) Current ratio = $\frac{\text{--------------------}}{\text{Current liabilities}}$

(a) Quick assets *(b) Quick liabilities* *(c) Current assets* *(d) None of these*

(3) Liquid assets = ...

(a) Current assets + Stock *(b) Current assets – Stock*

(c) Current assets – Stock + Prepaid Expenses *(d) None of these*

(4) Cost of goods sold = ...
(a) Sales – Gross profit *(b) Sales – Net profit*
(c) Sales proceeds *(d) None of these*

(5) Net profit ratio is equal to ....
(a) Operating ratio *(b) Operating net profit ratio*
(c) Gross profit ratio *(d) Current ratio*

(6) The common size statement requires ....
(a) common base *(b) journal entries* *(c) cash flow* *(d) current ratio*

(7) Bill payable is ....
(a) long-term loan *(b) current liability* *(d) liquid assets* *(d) net loss*

(8) Generally current ratio should be ....
(a) 2 : 1 *(b) 1 : 1* *(c) 1 : 2* *(d) 3 : 1*

(9) From financial statement analysis the creditors are specially interested to know ....
(a) Liquidity *(b) Profits* *(c) Sale* *(d) Share capital*

Ans. (1) Net sales (2) Current assets (3) Current assets – Stock (4) Sales – Gross profit (5) Operating ratio (6) common base (7) current liability (8) 2 : 1 (9) Liquidity

(2) (1) The methodical classification of financial statement is called ....
(a) an interpretation *(b) an analysis* *(c) ratio* *(d) Profit and Loss A/c*

(2) The short-term deposits are ....
(a) net cash *(b) cash equivalent* *(c) cash flow* *(d) cash outflow*

(3) Cash proceeds from issue of debentures is a .... activity.
(a) financial *(b) non-financial* *(c) operating* *(d) trading*

(4) The relationship between net profit before tax, interest and dividend and capital employed is known from ....
(a) Current ratio *(b) Quick ratio* *(c) ROI* *(d) ROCE*

(5) Bills receivable is ....
(a) Liquid asset *(b) Net profit* *(c) Current asset* *(d) Net loss*

(6) ROCE should be .... than ROI.
(a) less *(b) higher* *(c) equal* *(d) none of these*

(7) Ideally liquid ratio / quick ratio should be ....
(a) 1 : 2 *(b) 1 : 1* *(c) 2 : 1* *(d) 1 : 3*

(8) Gross / Net profit ratio expressed in ....
(a) number *(b) ratio* *(c) percentage* *(d) words*

Ans. (1) an analysis (2) cash equivalent (3) financial (4) ROI (5) Current asset (6) higher (7) 1 : 1 (8) percentage

(B) * (1) Write the word / phrase / term, which can substitute each of the following statements :

Statement	Ans. (word / phrase / term)
(1) The statement showing profitability of two different periods.	Comparative Income Statement
(2) The ratio measures the relationship between gross profit and net sales.	Gross Profit Ratio
(3) Critical evaluation of financial statement to measure profitability.	Analysis of Financial Statement
(4) A particular mathematical number showing relationship between two accounting figures.	Ratio
(5) An asset which can be converted into cash immediately.	Liquid Asset

Statement	Ans. (word / phrase / term)
(6) The ratio measuring the relationship between net profit and ownership capital employed.	ROCE
(7) The statement showing financial position for different periods of previous year and current year.	Comparative Balance Sheet
(8) Statement showing changes in cash and cash equivalent during a particular period.	Cash Flow Statement
(9) Activity related to acquisition of long-term assets and investment.	Financing Activities
(10) The ratio that establishes relationship between Quick Assets and Current Liabilities.	Liquid Ratio

(2)

Statement	Ans. (word / phrase / term)
(1) The tool for analysis of financial statement where individual figures of Balance Sheet are converted into percentage.	Common Size Balance Sheet
(2) The type of activity in cash flow analysis, involving purchase of fixed asset.	Investing Activity
(3) Ratio which measures the efficiency of production department.	Gross Profit Ratio
(4) Ratio which measures overall efficiency of business.	Net Profit Ratio
(5) Ratio which shows operational efficiency of business.	Operating Profit Ratio
(6) Ratio which is computed to measure overall efficiency or profitability of business.	Return On Invesment (ROI)

(C) * (1) State whether the following statements are True or False with reasons :

(1) Financial statements includes only Balance Sheet.

Ans. This statement is **False.**

Financial statements includes Balance Sheet and Profft and Loss A / c. This is because financial statements are prepared by business organisations to find out efficiency, solvency, profitability, growth, strength and status of the business. For this they need information from balance sheet as well as from Profit and Loss A / c.

(2) Analysis of financial statement is a tool but not a remedy.

Ans. This statement is **True.**

Based on analysis of financial statement one can get idea of financial strengh and weakness of the business. However, based on this one cannot take decision about the business on various issues. Hence analysis of financial statement is a tool but not a remedy.

(3) Purchase of fixed assets is operating cash flow.

Ans. This statement is **False.**

Purchase of fixed assets is cash flow from investing activities. It is not a day to day operations activities like office / selling / distribution finance expenses / activities.

(4) Dividend paid is not a source of fund.

Ans. This statement is **True.**

Dividend is always paid on shares issued by a company is an expense. Shares itself is a source of fund. In payment of dividend cash goes out from the company. It is an out flow of cash and not a source of fund.

(5) Gross profit depends upon net sales.

Ans. This statement is **True.**

Gross profit ratio discloses the relation between gross profit and total net sales. Gross profit ratio is an income based ratio, where gross profit is an income. There is direct relation between net sales and gross profit. Higher the net sales higher the gross profit.

(6) Payment of cash against purchase of stock is use of fund.

Ans. This statement is **True.**

Cash payment for purchase of stock is made from cash balance or / and from bank balance which is a part of business fund. When stock or materials we purchase we use cash for payment.

(7) Ratio Analysis is useful for inter firm comparision.

Ans. This statement is **True.**

The comparision of the operating performance of a business entity with the other business entities is known as inter firm comparision. This ratio analysis assist to know how and to what extent a business entity is strong or weak as compared to other business entity.

(8) The short-term deposits are considered as cash equivalent.

Ans. This statement is **True.**

The short-term deposits are liquid assets. It means deposits kept for some period (usually less than one year) and they are kept with an intention to get money quickly as and when required. They are as good as cash and considered as cash equivalent.

(9) Activity ratios and Turnover ratios are same.

Ans. This statement is **True.**

Turnover ratio is an efficiency ratio to check how efficiently company is using different assets to extract earnings from them.

Activity ratio are financial analysis tools used to measure a business ability to convert its assets into cash. From both these definitions we can say that Activity ratios and Turnover ratios are same.

(10) Current ratio measures the liquidity of the business.

Ans. This statement is **True.**

Current ratio shows relation between current assets and current liabilities. If the proportion of current assets is higher than current liabilities, liquidity position of business entity is considered good. More liquidity means more short-term solvency. From the above it is proved that current ratio measures the liquidity of the business.

(11) Ratio analysis measures profitability efficiency and financial soundness of the business.

Ans. This statement is **True.**

With the help of profitability ratios (Gross profit, Net profit and Operating profit) one can get the idea of profitability efficiency of the firm and with the help of liquidity ratios (Current ratio and liquid ratio) one can get the idea of solvency or financial soundness of the business.

(12) Usually current ratio should be 3 : 1.

Ans. This statement is **False.**

Usually current ratio should be 2 : 1. It means current assets are double of current liabilities. It shows the short-term solvency of business enterprises.

(D) * (1) Answer in one sentence only :

(1) Mention two objectives of comparative statement.

Ans. Objectives of comparative statements are :

(i) Compare financial data at two points of time and

(ii) Helps in deriving the meaning and conclusions regarding the changes in financial positions and operating results.

(2) State three examples of cash in flows.

Ans. Examples of cash inflows are :

(1) Interest received, (2) Dividend received, (3) Sale of asset / investment, (4) Rent received.

(3) State three examples of cash out flows.

Ans. Examples of cash out flows are :

(1) Interest paid, (2) Loss on sale of asset, (3) Dividend paid, (4) Repayment of short-term borrowings.

(4) Give the formula of Gross Profit Ratio.

Ans. Gross profit ratio $= \frac{\text{Gross profit}}{\text{Net sales}} \times 100$

Where Gross profit = Net sales – Cost of goods sold.

Cost of goods sold = Opening stock + Purchase – Purchase return + Direct expense – Closing stock

Net sales = Sales – Sales return.

(5) Give the formula of Gross profit.

Ans. Gross profit = Net sales – Cost of goods sold.

Cost of goods sold = Opening stock + Purchase – Purchase return + Direct expense – Closing stock

Net sales = Sales – Sales return.

(6) Give any three examples of current assets.

Ans. Cash or cash equivalent short-term lending and advances, expenses paid in advance, taxes paid in advance, etc. are the examples of current assets.

(7) Give the formula of current ratio.

Ans. Current ratio $= \frac{\text{Current assets}}{\text{Current liabilities}}$

(8) Give the formula of quick assets.

Ans. Quick assets = Current assets – (Stock + Prepaid expense)

(9) State the formula of Cost of goods sold.

Ans. Cost of goods sold = Opening stock + Purchase – Purchase return + Direct expense – Closing stock

(10) State the formula of Average stock.

Ans. Average stock $= \frac{\text{Opening stock of goods} + \text{Closing stock of goods}}{2}$

(2) **(1) Define financial statements.**

Ans. The statements which are prepared by the business to find out profitability, efficiency, solvency, growth of business to judge the financial strength and status are called financial statements.

(2) Who prepares financial statements ?

Ans. The financial statements are prepared by the Profit making organisations as well as Non-profit concerns or organisations.

(3) State the main tools or techniques of financial analysis.

Ans. Main tools or techniques of financial analysis are as follows :

(1) Comparative financial statement, (2) Common size statement and (3) Cash flow analysis.

(4) State the primary objective of cash flow statement.

Ans. Primary objective of cash flow statement is to help management in taking decisions and making a plan by providing current information on cash inflow and outflow of any particular period.

(5) What is Financial Ratio ?

Ans. Financial ratio is a mathematical number that measures the relationship between two accounting figures.

(6) Write the names of the Balance Sheet ratio.

Ans. Balance Sheet ratios are – (i) Current ratio and (ii) Liquid ratio.

(7) Write the names of Income Statement ratio.

Ans. Income Statement ratios are –

(i) Gross Profit ratio (ii) Net Profit ratio and (iii) Operating Expense ratio.

(8) Give three examples of current liability.

Ans. Examples of current liability are :

Sundry creditors, Bills payable, Bank overdraft, Short-term loan, etc.

(9) Write the names of combined / mixed ratio.

Ans. Names of combined / mixed ratios are –

(1) Return On Capital Employed (ROCE)
(2) Return On Investment (ROI)

SOLUTIONS OF TEXTUAL PROBLEMS

***Q. 1. From the Balance Sheet of Amar Traders as on 31st March, 2018 and 31st March, 2019 prepare Comparative Balance Sheet.**

Liabilities	31 – 03 – 2018 (₹)	31 – 03 – 2019 (₹)	Assets	31 – 03 – 2018 (₹)	31 – 03 – 2019 (₹)
Capital	60,000	72,000	Fixed Assets	1,20,000	1,50,000
Reserve and Surplus	24,000	30,000	Current Assets	28,000	27,000
Loans	34,000	51,000			
Creditors	30,000	24,000			
	1,48,000	1,77,000		1,48,000	1,77,000

Solution :

Comparative Balance Sheet of Amar Traders
as on 31st March, 2018 and 31st March, 2019

Particulars	(1) 31 – 03 – 2018 (₹)	(2) 31 – 03 – 2019 (₹)	(3) Absolute Change (₹)	(4) Percentage Change
I. Sources of Funds				
(a) Capital	60,000	72,000	12,000	20 % Increase
(b) Reserve and Surplus	24,000	30,000	6,000	25 % Increase
(A) Net Worth	84,000	1,02,000	18,000	21.43 % Increase
Borrowed Funds				
(a) Loans	34,000	51,000	17,000	50 % Increase
(B) Total Borrowed Funds	34,000	51,000	17,000	50 % Increase
Total Funds Available (A + B)	1,18,000	1,53,000	35,000	29.66 % Increase

II. Application of Funds				
A. Fixed Assets	1,20,000	1,50,000	30,000	25 % Increase
B. Working Capital				
(1) Current Assets	28,000	27,000	(1,000)	(3.57 %) Decrease
Less : (2) Current Liabilities				
Creditors	30,000	24,000	(6,000)	(20 %) Decrease
Working Capital (Current Assets – Current Liabilities)	(2,000)	3,000	5,000	(250 %) Increase
Total Funds Applied (A + B)	1,18,000	1,53,000	35,000	29.66 % Increase

$$\text{Percentage change} = \frac{\text{Amount of absolute change}}{\text{Amount of previous year}} \times 100$$

***Q. 2. From the Balance Sheet of Alpha Limited prepare a Comparative Balance Sheet as on 31st March, 2018 and 31st March, 2019 :**

Balance Sheet as on 31st March, 2018 and 31st March, 2019

Liabilities	31 – 03 – 2018 (₹)	31 – 03 – 2019 (₹)	Assets	31 – 03 – 2018 (₹)	31 – 03 – 2019 (₹)
Equity Share Capital	2,00,000	2,50,000	Land	80,000	1,00,000
12 % Preference Shares	80,000	80,000	Building	60,000	90,000
Reserves and Surplus	1,00,000	1,40,000	Plant and Machinery	73,000	1,73,000
15 % Debentures	60,000	51,000	Stock	1,50,000	1,10,000
Creditors	50,000	80,000	Debtors	1,28,000	1,40,000
Bills Payable	10,000	6,000	Bank	34,000	37,000
Provision for Taxation	25,000	43,000			
	5,25,000	6,50,000		5,25,000	6,50,000

Solution :

Comparative Balance Sheet of Alpha Limited as on 31st March, 2018 and 31st March, 2019

Particulars	(1) 31 – 03 – 2018 (₹)	(2) 31 – 03 – 2019 (₹)	(3) Absolute Change (₹)	(4) Percentage Change
I. Sources of Funds				
(a) Equity Share Capital	2,00,000	2,50,000	50,000	25 % Increase
(b) 12 % Preference Shares	80,000	80,000	–	–
(c) Reserve and Surplus	1,00,000	1,40,000	40,000	40 % Increase
(A) Net Worth	3,80,000	4,70,000	90,000	23.68 % Increase
Borrowed Funds				
Secured Loan – 15 % Debentures	60,000	51,000	(9,000)	(15 %) Decrease
(B) Total Borrowed Funds	60,000	51,000	(9,000)	(15 %) Decrease
Total Funds Available (A + B)	4,40,000	5,21,000	81,000	18.41 % Increase

II. Application of Funds				
A. Fixed Assets – Land	80,000	1,00,000	20,000	25 % Increase
Building	60,000	90,000	30,000	50 % Increase
Plant and Machinery	73,000	1,73,000	1,00,000	137 % Increase
	2,13,000	3,63,000	1,50,000	70.42 % Increase
B. Working Capital				
Current Assets – Stock	1,50,000	1,10,000	(40,000)	(26.67) % Decrease
Debtors	1,28,000	1,40,000	12,000	9.375 % Increase
Bank	34,000	37,000	3,000	8.82 % Increase
Less : Current Liabilities				
Creditors	50,000	80,000	30,000	60 % Increase
Bills Payable	10,000	6,000	(4,000)	(40 %) Decrease
Provision for Taxation	25,000	43,000	18,000	72 % Increase
Working Capital (Current Assets – Current Liabilities)	2,27,000	1,58,000	(69,000)	(30.40 %) Decrease
Total Funds Applied (A + B)	4,40,000	5,21,000	81,000	18.41 % Increase

***Q. 3. Prepare Comparative Balance Sheet for the year ended 31 – 3 – 18 and 31 – 3 – 19. Assets & Liabilities as follows :**

Particulars	**31 – 03 – 2018 (₹)**	**31 – 03 – 2019 (₹)**
(1) Fixed Assets	1,20,000	1,50,000
(2) Share Capital	60,000	72,000
(3) Current Assets	28,000	27,000
(4) Reserve & Surplus	24,000	30,000
(5) Loan	34,000	57,000
(6) Current Liabilities	30,000	24,000

Solution :

**Comparative Balance Sheet as on
31st March, 2018 and 31st March, 2019**

Particulars	**(1) 31 – 03 – 2018 (₹)**	**(2) 31 – 03 – 2019 (₹)**	**(3) Absolute Change (₹)**	**(4) Percentage Change**
I. Sources of Funds				
(a) Share Capital	60,000	72,000	12,000	20 % Increase
(b) Reserve and Surplus	24,000	30,000	6,000	25 % Increase
(A) Net Worth	84,000	1,02,000	18,000	21.43 % Increase
(B) Borrowed Funds – Loan	34,000	57,000	23,000	67.65 % Increase
Total Funds Available (A + B)	1,18,000	1,59,000	41,000	34.74 % Increase

II. Application of Funds				
A. Fixed Assets	1,20,000	1,50,000	30,000	25 % Increase
Working Capital				
(1) Current Assets	28,000	27,000	(1,000)	(3.57 %) Decrease
Less : (2) Current Liabilities	30,000	24,000	(6,000)	(20 %) Decrease
B. Working Capital				
(Current Assets – Current Liabilities)	(2,000)	3,000	5,000	(250 %) Decrease
Total Funds Applied (A + B)	1,18,000	1,53,000	35,000	29.66 % Increase

***Q. 4. Prepare Comparative Balance Sheet for the year ended 31 – 3 – 17 and 31 – 3 – 18.**

Particulars	31 – 03 – 2017 (₹)	31 – 03 – 2018 (₹)
(1) Current Liabilities	60,000	48,000
(2) Fixed Assets	2,40,000	3,00,000
(3) Loan	68,000	1,02,000
(4) Share Capital	1,20,000	1,44,000
(5) Reserve & Surplus	48,000	60,000
(6) Current Assets	56,000	54,000

Solution :

Comparative Balance Sheet as on
31st March, 2017 and 31st March, 2018

Particulars	(1) 31 – 03 – 2017 (₹)	(2) 31 – 03 – 2018 (₹)	(3) Absolute Change (₹)	(4) Percentage Change
I. Sources of Funds				
(a) Share Capital	1,20,000	1,44,000	24,000	20 % Increase
(b) Reserve and Surplus	48,000	60,000	12,000	25 % Increase
(A) Net Worth	1,68,000	2,04,000	36,000	21.43 % Increase
(B) Borrowed Funds – Loan	68,000	1,02,000	34,000	50 % Increase
Total Funds Available (A + B)	2,36,000	3,06,000	70,000	29.66 % Increase
II. Application of Funds				
A. Fixed Assets	2,40,000	3,00,000	60,000	25 % Increase
(1) Current Assets	56,000	54,000	(2,000)	(3.57 %) Decrease
Less : (2) Current Liabilities	60,000	48,000	(12,000)	(20 %) Decrease
B. Working Capital				
(Current Assets – Current Liabilities)	(4,000)	6,000	10,000	(250 %) Decrease
Total Funds Applied (A + B)	2,36,000	3,06,000	70,000	29.66 % Increase

***Q. 5. Prepare Comparative Income statement of Noha Limited for the year ended 31 – 3 – 17 and 31 – 3 – 18.**

Particulars	31 – 03 – 2017 (₹)	31 – 03 – 2018 (₹)
Sales	2,00,000	3,00,000
Income Tax	50 %	50 %
Cost of Sales	1,20,000	80,000
Indirect Expenses	8,000	12,000

Solution : **Comparative Income Statement of Noha Limited**

For the year ended 31st March, 2017 and 31st March, 2018

Particulars	31 – 03 – 2017 (₹)	31 – 03 – 2018 (₹)	Absolute Change (₹)	Percentage Change
Sales	2,00,000	3,00,000	1,00,000	50 % Increase
Less : Cost of Sales	1,20,000	80,000	(40,000)	(33.33 %) Decrease
Gross Profit	80,000	2,20,000	1,40,000	175 % Increase
Less : Indirect Expenses	8,000	12,000	4,000	50 % Increase
Net Profit before Tax	72,000	2,08,000	1,36,000	188.89 % Increase
Less : Tax 50 %	36,000	1,04,000	68,000	188.89 % Increase
Net Profit after Tax	36,000	1,04,000	68,000	188.89 % Increase

***Q. 6. Prepare Comparative Income Statement of Sourabh Limited for year ended 31 – 3 – 17 and 31 – 3 – 18.**

Particulars	31 – 03 – 2017 (₹)	31 – 03 – 2018 (₹)
Sales	4,00,000	6,00,000
Indirect Expenses	16,000	24,000
Cost of Sales	24,000	56,000
Income Tax	50 %	50 %

Solution : **Comparative Income Statement of Sourabh Limited**

For the year ended on 31st March, 2017 and 31st March, 2018

Particulars	31 – 03 – 2017 (₹)	31 – 03 – 2018 (₹)	Absolute Change (₹)	Percentage (%) Change
Sales	4,00,000	6,00,000	2,00,000	50 % Increase
Less : Cost of Sales	24,000	56,000	32,000	133.33 % Increase
Gross Profit	3,76,000	5,44,000	1,68,000	44.68 % Increase
Less : Indirect Expences	16,000	24,000	8,000	50 % Increase
Net Profit before Tax	3,60,000	5,20,000	1,60,000	44.44 % Increase
Less : Tax 50 %	1,80,000	2,60,000	80,000	44.44 % Increase
Net Profit after tax	1,80,000	2,60,000	80,000	44.44 % Increase

***Q. 7. Following is the Balance Sheet of Sakshi Traders for the year ended 31 – 3 – 17 and 31 – 3 – 18 :**

Liabilities	31 – 03 – 2017 (₹)	31 – 03 – 2018 (₹)	Assets	31 – 03 – 2017 (₹)	31 – 03 – 2018 (₹)
Equity Share Capital	80,000	80,000	Fixed Assets	1,20,000	1,44,000
Pref. Shares Capital	20,000	20,000	Investment	20,000	20,000
Reserve and Surplus	20,000	24,000	Current Assets	60,000	48,000
Secured Loan	40,000	16,000			
Unsecured Loan	20,000	36,000			
Current Liabilities	20,000	36,000			
	2,00,000	2,12,000		2,00,000	2,12,000

Prepare Common Size Balance Sheet for the year 31 – 03 – 17 and 31 – 03 – 18.

Solution : **Common Size Statement of Balance Sheet of Sakshi Traders as on 31st March, 2017 and 31st March, 2018**

Particulars	Amount (₹)		% to total of Balance Sheet	
	31 – 03 – 2017 (₹)	31 – 03 – 2018 (₹)	31 – 03 – 2017 (₹)	31 – 03 – 2018 (₹)
I. Sources of Funds :				
(1) Owner's Equity				
Equity Share Capital	80,000	80,000	44.45	45.45
Preference Shares Capital	20,000	20,000	11.11	11.36
Reserve and Surplus	20,000	24,000	11.11	13.64
Net Worth	1,20,000	1,24,000	66.67	70.45
(2) Borrowed Funds				
Secured Loans	40,000	16,000	22.22	9.09
Unsecured Loans	20,000	36,000	11.11	20.46
	60,000	52,000	33.33	29.55
Total Borrowed Funds	1,80,000	1,76,000	100	100
II. Application of Funds				
(1) Fixed Assets	1,20,000	1,44,000	66.67	81.82
(2) Investments	20,000	20,000	11.11	11.36
	1,40,000	1,64,000	77.78	93.18
(3) Working Capital				
(A) Current Assets	60,000	48,000	–	–
Less : (B) Current Liabilities	20,000	36,000	–	–
	40,000	12,000	22.22	6.82
Total Funds Applied	1,80,000	1,76,000	100	100

Note : Taking Total borrowed funds and Tota Funds applied as base (100), Calculation is done.

*** Q. 8. Prepare Common Size Income Statement for the year ended 31 – 3 – 17 and 31 – 3 – 18.**

Particulars	31 – 03 – 2017 (₹)	31 – 03 – 2018 (₹)
Sales	2,00,000	2,50,000
Cost of Goods Sold	1,50,000	1,70,000
Office and Administrative Expenses	4,000	6,000
Selling and Distribution Expenses	6,000	1,000

Solution :

Common Size Statement for the year ended on 31st March, 2017 and 31st March, 2018

Particulars	Amount (₹)	Percentage (%)	Amount (₹)	Percentage (%)
Sales	2,00,000	100	2,50,000	100
Less : Cost of goods sold	1,50,000	75	1,70,000	68
Gross Profit	50,000	25	80,000	32
Less : Office and Administrative Expenses	4,000	2	6,000	2.4
Less : Selling and Distribution Expenses	6,000	3	1,000	0.4
Net Profit	40,000	20	73,000	29.2

Note : Taking the amount of sales as base (100) other percentage figures are calculated.

*** Q. 9. Following is the Balance Sheet of Sakshi Limited. Prepare Cash Flow Statement :**

Liabilities	31 – 03 – 2017 (₹)	31 – 03 – 2018 (₹)	Assets	31 – 03 – 2017 (₹)	31 – 03 – 2018 (₹)
Share Capital	2,00,000	3,00,000	Cash	20,000	30,000
Creditors	60,000	90,000	Debtors	1,40,000	2,50,000
Profit and Loss A/c	40,000	70,000	Stock	80,000	70,000
			Land	60,000	1,10,000
	3,00,000	4,60,000		3,00,000	4,60,000

Solution :

Cash Flow Statement
For the year ended 31st March, 2017 and 31st March, 2018

Particulars	Amount (₹)	Amount (₹)
(A) **Cash flow from Operating activities**		
Closing balance of Profit and Loss A/c	70,000	
Less : Opening balance of Profit and Loss A/c	40,000	
	30,000	
Add : Decrease in Current Asset – Stock	10,000	
Add : Increase in Current Liabilities – Creditors	30,000	
	70,000	
Less : Increase in Current Asset – Debtors	1,10,000	
Net Cash from Operating activities (A)		(40,000)
(B) **Cash flow from Investing activities**		
Purchase of Land	50,000	
Net Cash used in Investing activities (B)		50,000
(C) **Cash flow from Financing activities**		
Amount of share capital received	1,00,000	
Net Cash from Financing activities (C)		1,00,000
Net increase in cash and cash equivalent (A + C – B)		10,000
Cash equivalent in the beginning of period.		20,000
Cash equivalent at the end of period		30,000

*** Q. 10. From the following Balance Sheet of Konal Traders prepare Cash Flow Statement.**

Liabilities	31 – 03 – 2017 (₹)	31 – 03 – 2018 (₹)	Assets	31 – 03 – 2017 (₹)	31 – 03 – 2018 (₹)
Share Capital	2,00,000	2,50,000	Cash	30,000	47,000
Creditors	70,000	45,000	Debtors	1,20,000	1,15,000
Profit and Loss A/c	10,000	23,000	Stock	80,000	90,000
			Land	50,000	66,000
	2,80,000	3,18,000		2,80,000	3,18,000

Solution :

Cash Flow Statement

For the year ended on 31st March, 2017 and 31st March, 2018

Particulars	Amount (₹)	Amount (₹)
(A) Cash flow from Operating activities		
Closing balance of Profit and Loss A/c	23,000	
Less : Opening balance of Profit and Loss A/c	10,000	
	13,000	
Add : Decrease in Current Assets – Debtors	5,000	
	18,000	
Less : Increase in Current Assets – Stock	(10,000)	
Less : Decrease in Current Liabilities – Creditors	(25,000)	
Net Cash from Operating activities (A)		(17,000)
(B) Cash flow from Investing activities		
Purchase of Land	16,000	
Net Cash used in Investing activities (B)		16,000
(C) Cash flow from Financing activities		
Amount of share capital received	50,000	
Net Cash used in Financing activities (C)		50,000
Net increase in cash and cash equivalent (A + C – B)		17,000
Cash equivalent in the beginning of period.		30,000
Cash equivalent at the end of period.		47,000

***Q. 11. A company had following Current Assets and Current Liabilities :**

Debtors	₹ 1,20,000	Creditors	₹ 60,000
Bills Payable	₹ 40,000	Stock	₹ 60,000
Loose Tools	₹ 20,000	Bank Overdraft	₹ 20,000

Calculate Current ratio.

Solution :

(1) Current Assets = Debtors + Stock + Loose Tools
= 1,20,000 + 60,000 + 20,000
= ₹ 2,00,000

(2) Current liabilities = Creditors + Bills payable + Bank overdraft
= 60,000 + 40,000 + 20,000
= ₹ 1,20,000

(3) Current ratio $= \dfrac{\text{Current assets}}{\text{Current liabilities}}$

$= \dfrac{2,00,000}{1,20,000}$

$= \dfrac{5}{3}$

Current ratio = 5 : 3

***Q. 12. Current assets of company ₹ 6,00,000 and its Current ratio is 2 : 1. Find Current liabilities.**

Solution :

Current ratio $= \dfrac{\text{Current assets}}{\text{Current liabilities}}$

$\dfrac{2}{1} = \dfrac{6,00,000}{\text{Current liabilities}}$

2 × Current liabilities = 6,00,000 × 1

$\therefore$ Current liabilities $= \dfrac{6,00,000}{2}$

= ₹ 3,00,000

***Q. 13.** Current liabilities = ₹ 3,00,000

Working capital = ₹ 8,00,000

Inventory = ₹ 2,00,000

Calculate Quick ratio.

Solution :

Current assets = Current liabilities + Working capital

= 3,00,000 + 8,00,000

= ₹ 11,00,000

Quick assets = Current assets – Inventory

= 11,00,000 – 2,00,000

= ₹ 9,00,000

Quick liability = Current liabilities – Bank O/D

= ₹ 3,00,000

Quick ratio $= \dfrac{\text{Quick assets}}{\text{Quick liabilities}}$

$= \dfrac{9,00,000}{3,00,000}$

$= \dfrac{3}{1}$

= 3 : 1

***Q. 14. Calculate Gross Profit ratio :**

Sales	= ₹ 2,70,000
Net purchases	= ₹ 1,50,000
Sales return	= ₹ 20,000
Closing stock	= ₹ 25,000
Opening stock	= ₹ 45,000

Solution :

Net sales = Sales – Sales return
= 2,70,000 – 20,000
= ₹ 2,50,000

Cost of goods sold = Opening stock + Net purchase – Closing stock
= 45,000 + 1,50,000 – 25,000
= ₹ 1,70,000

Gross profit = Net sales – Cost of goods sold
= 2,50,000 – 1,70,000
= ₹ 80,000

$$\text{Gross Profit ratio} = \frac{\text{Gross profit}}{\text{Net sales}} \times 100$$

$$= \frac{80{,}000}{2{,}50{,}000} \times 100$$

∴ Gross profit ratio = 32 %

***Q. 15. Calculate Net Profit ratio from the following :**

Sales = ₹ 3,80,000
Cost of goods sold = ₹ 2,60,000
Indirect expense = ₹ 60,000

Solution :

Sales = ₹ 3,80,000
Less : Cost of goods sold = ₹ 2,60,000
Gross profit = ₹ 1,20,000
Less : Indirect expense = ₹ 60,000
Net profit = ₹ 60,000

$$\text{Net profit ratio} = \frac{\text{Net profit}}{\text{Sales}} \times 100$$

$$= \frac{60{,}000}{3{,}80{,}000} \times 100$$

= 15.79 %

***Q. 16. Calculate Operating ratio :**

Cost of goods sold = ₹ 3,50,000
Operating expense = ₹ 30,000
Sales = ₹ 5,00,000
Sales return = ₹ 30,000

Solution :

Net sales = Sales – Sales return
= 5,00,000 – 30,000
= ₹ 4,70,000

$$\text{Operating ratio} = \frac{\text{Cost of goods sold} + \text{Operating expense}}{\text{Net sales}} \times 100$$

$$= \frac{3{,}50{,}000 + 30{,}000}{4{,}70{,}000} \times 100$$

$$= \frac{3{,}80{,}000}{4{,}70{,}000} \times 100 = 80.85\ \%$$

***Q. 17. Calculate Current ratio.**

(1) Current assets = ₹ 3,00,000

(2) Current liabilities = ₹ 1,00,000

Solution :

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

$$= \frac{3,00,000}{1,00,000} = \frac{3}{1} = 3 : 1$$

PROBLEMS FOR PRACTICE

1. From the following Balance Sheet of Kalpana Limited prepare a Comparative Balance Sheet as on 31 – 3 – 2018 and 31 – 3 – 2019.

Liabilities	31 – 03 – 2018 (₹)	31 – 03 – 2019 (₹)	Assets	31 – 03 – 2018 (₹)	31 – 03 – 2019 (₹)
Share Capital	1,50,000	2,22,000	Fixed Assets	2,10,000	3,42,000
Reserves and Surplus	36,000	60,000	Investments	72,000	1,02,000
Unsecured Loans	54,000	84,000	Current Assets	78,000	72,000
Secured Loans	60,000	96,000			
Current Liabilities	60,000	54,000			
	3,60,000	5,16,000		3,60,000	5,16,000

[**Ans.** Total Fund Available = Total Fund Applied = ₹ 3,00,000 (31 – 03 – 2018)
= ₹ 4,62,000 (31 – 03 – 2019) 54 % Increase]

2. Prepare a Comparative Balance Sheet from the following data :

Liabilities	31 – 03 – 2019 (₹)	31 – 03 – 2020 (₹)	Assets	31 – 03 – 2019 (₹)	31 – 03 – 2020 (₹)
Share Capital	2,24,000	2,64,000	Building	1,12,000	1,52,000
Reserves and surplus	80,000	1,12,000	Furniture	58,400	1,38,400
Secured Loans	48,000	40,800	Stock of Goods	1,20,000	88,000
Creditors	40,000	64,000	Debtors / Customers	1,02,400	1,12,000
Bills Payable	28,000	39,200	Cash / Bank Balance	27,200	29,600
	4,20,000	5,20,000		4,20,000	5,20,000

[**Ans.** Total Fund Available = Total Fund Applied = ₹ 3,52,000 (31 – 03 – 2019)
= ₹ 4,16,800 (31 – 03 – 2020)
= 18.41 % Increase]

3. Income Statement of K. P. Limited for the year ended 31 – 3 – 19 and 31 – 3 – 20 is given below. Prepare Comparative Income Statement.

Particulars	31 – 03 – 2019 (₹)	31 – 03 – 2020 (₹)
Sales	5,00,000	8,00,000
Cost of Sales	2,00,000	3,00,000
Indirect Expenses	20,000	30,000
Income Tax	30 %	30 %

[**Ans.** Net profit after tax = ₹ 1,96,000 (31 – 03 – 2019)
= ₹ 3,29,000 (31 – 03 – 2020)]

4. Prepare Comparative Income Statement of Zenith Limited for the year ended 31 – 3 – 18 and 31 – 3 – 19.

Particulars	31 – 03 – 2018 (₹)	31 – 03 – 2019 (₹)
Sales	4,80,000	7,50,000
Cost of Sales	1,50,000	1,80,000
Indirect Expenses	25,000	35,000
Income Tax	30 %	30 %

[**Ans.** Net profit after tax = ₹ 2,13,500 (31 – 03 – 2018) = ₹ 3,74,500 (31 – 03 – 2019)]

5. From the following information of Ashray Limited, Prepare Common Size Balance Sheet as on 31 – 3 – 18.

Balance Sheet as on 31 – 3 – 2018

Liabilities	Amount (₹)	Assets	Amount (₹)
Equity Share Capital	6,00,000	Fixed Assets	6,00,000
Reserve and Surplus	1,25,000	Investments	2,50,000
Unsecured Loans	1,50,000	Current Assets	3,75,000
Secured Loans	2,00,000		
Current Liabilities	1,50,000		
	12,25,000		12,25,000

[**Ans.** Total Fund Borrowed = Total Fund Applied = ₹ 10,75,000]

6. Prepare Common Size Balance Sheet as on 31 – 3 – 18 and 31 – 3 – 2019 of Prihaan Ltd. from the following information :

Balance Sheet as on 31 – 3 – 2018 and 31 – 3 – 2019

Liabilities	31 – 03 – 2018 (₹)	31 – 03 – 2019 (₹)	Assets	31 – 03 – 2018 (₹)	31 – 03 – 2019 (₹)
Equity Share Capital	4,00,000	5,50,000	Fixed Assets	5,00,000	7,50,000
Preference Share Capital	1,50,000	2,00,000	Investments	2,80,000	2,50,000
Reserve and Surplus	1,30,000	1,00,000	Current Assets	1,50,000	2,00,000
Secured Loans	70,000	1,00,000			
Unsecured Loans	1,00,000	1,50,000			
Current Liabilities	80,000	1,00,000			
	9,30,000	12,00,000		9,30,000	12,00,000

[**Ans.** Total Fund Borrowed = Total Fund Applied = ₹ 8,50,000 (31 – 03 – 2018)
Total Fund Borrowed = Total Fund Applied = ₹ 11,00,000 (31 – 03 – 2019)]

7. Prepare Common Size Income Statement for the year ended 31 – 3 – 2019 and 31 – 3 – 2020.

Particulars	31 – 03 – 2019 (₹)	31 – 03 – 2020 (₹)
Sales	5,00,000	7,00,000
Cost of goods sold	1,75,000	2,25,000
Office and Administrative Expenses	25,000	25,000
Selling and Distribution Expenses	30,000	35,000

[**Ans.** Net profit = ₹ 2,70,000 (31 – 03 – 2019)
= ₹ 4,15,000 (31 – 03 – 2020)]

8. Prepare Common Size Income Statement for the year ended 31 – 3 – 2018 and 31 – 3 – 2019.

Particulars	31 – 03 – 2018 (₹)	31 – 03 – 2019 (₹)
Sales	8,00,000	11,00,000
Cost of goods sold	2,00,000	3,00,000
Office and Administrative Expenses	40,000	50,000
Selling and Distribution Expenses	60,000	70,000

[**Ans.** Net profit = ₹ 5,00,000 (31 – 03 – 2018)
= ₹ 6,80,000 (31 – 03 – 2019)]

9. Prepare Cash Flow Statement of Zalak Ltd. from the following Balance Sheet :

Liabilities	31 – 03 – 2018 (₹)	31 – 03 – 2019 (₹)	Assets	31 – 03 – 2018 (₹)	31 – 03 – 2019 (₹)
Share Capital	4,00,000	6,00,000	Cash Balance	50,000	80,000
Sundry Creditors	90,000	60,000	Sundry Debtors	2,00,000	3,00,000
Profit and Loss A/c	1,00,000	1,50,000	Stock of Goods	1,40,000	1,30,000
			Land	2,00,000	3,00,000
	5,90,000	8,10,000		5,90,000	8,10,000

[**Ans.** (1) Cash flow from Operating activities = ₹ (70,000)

(2) Cash flow from Investing activities = ₹ 1,00,000 (Land)

(3) Cash flow from Financing activities = ₹ 2,00,000

Net increase in cash and cash equivalent = ₹ 30,000 (A + C – B)]

10. Prepare Cash Flow Statement of Keyur Ltd. from the following Balance Sheet :

Liabilities	31 – 03 – 2017 (₹)	31 – 03 – 2018 (₹)	Assets	31 – 03 – 2017 (₹)	31 – 03 – 2018 (₹)
Share Capital	1,50,000	2,00,000	Cash Balance	15,000	20,000
Bills Payable	10,000	13,000	Sundry Debtors	60,000	50,000
Bank Overdraft	14,000	11,000	Stock of Goods	49,000	63,000
Profit and Loss A/c	50,000	75,000	Machinery	80,000	1,50,000
			Bills Receivable	20,000	16,000
	2,24,000	2,99,000		2,24,000	2,99,000

[**Ans.** (1) Cash flow from Operating activities = ₹ 25,000

(2) Cash flow from Investing activities = ₹ 70,000 (Machinery)

(3) Cash flow from Financing activities = ₹ 50,000

Net increase in cash and cash equivalent = ₹ 5,000 (A + C – B)]

11. Calculate Current ratio.

Debtors ₹ 1,80,000, Bills receivables ₹ 30,000, Stock ₹ 30,000, Cash balance ₹ 35,000, Furniture ₹ 50,000, Bills payable ₹ 20,000, Short-term loan ₹ 90,000, Outstanding expenses ₹ 27,500.

[**Ans.** Current ratio = 2 : 1]

12. Calculate Current ratio.

Particulars	Amount (₹)	Particulars	Amount (₹)
Bills Receivable	30,000	Creditors	60,000
Furniture	60,000	Debtors	90,000
Land – Building	2,00,000	Cash Balance	30,000
Outstanding Expenses	40,000	Bills Payable	20,000
Bank Overdraft	30,000		
Non-current Investments	70,000		

[**Ans.** Current ratio = 1 : 1]

13. Calculate Quick ratio.

Prepaid expenses ₹ 6,000, Stock of goods ₹ 15,000, Current assets ₹ 75,000, Working capital ₹ 48,000.

[**Ans.** Quick ratio = 2 : 1]

14. Calculate Quick ratio.

Inventory ₹ 50,000, Bank overdraft ₹ 30,000, Working capital ₹ 3,00,000, Current Liabilities ₹ 1,00,000.

[**Ans.** Quick ratio = 5 : 1]

15. Calculate Gross profit ratio.

Opening stock ₹ 40,000, Closing stock ₹ 30,000, Purchases ₹ 1,40,000, Purchase return ₹ 25,000, Sales ₹ 2,00,000, Sales return ₹ 40,000, Direct expenses ₹ 30,000.

[**Ans.** Gross profit ratio = 3.125 %]

16. Calculate Gross profit ratio.

Sales ₹ 8,40,000, Gross profit ratio 40 % on cost.

[**Ans.** Gross profit ratio = 28.57 % and Gross profit = ₹ 2,40,000]

17. Calculate Net profit ratio.

Gross profit = ₹ 4,00,000, Administrative expenses ₹ 1,00,000, Selling and Distributing expenses ₹ 80,000, Insterest on debentures ₹ 60,000, Income tax ₹ 50,000, Sales ₹ 20,00,000.

[**Ans.** Net profit ratio = 8 % and Net profit before tax = ₹ 1,60,000]

18. Calculate Net profit ratio.

Sales ₹ 10,00,000, Cost of goods sold = ₹ 4,00,000, Indirect expenses = ₹ 1,00,000.

[**Ans.** Net profit ratio = 50 % and Net profit = ₹ 5,00,000]

19. Calculate Operating ratio.

Sales ₹ 8,00,000, Sales return ₹ 50,000, Operating expenses = ₹ 50,000, Cost of goods sold = ₹ 2,50,000.

[**Ans.** Operating ratio = 40 %]

20. Calculate Operating ratio.

Opening stock ₹ 40,000, Closing stock ₹ 60,000, Purchases ₹ 4,40,000, Purchase return ₹ 40,000, Sales ₹ 8,00,000, Sales return ₹ 30,000, Office and Administrative expenses ₹ 50,000, Selling and Distribution expenses ₹ 60,000.

[**Ans.** Operating ratio = 63.64 %; Cost of Goods sold = ₹ 3,80,000; Operating expenses = ₹ 1,10,000]

21. Calculate Operating ratio from the following Trading and Profit and Loss A/c of Dhanesh for the year ending 31st March, 2020.

Dr. **Trading and Profit and Loss Account** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock	60,000	By Sales	5,00,000
To Purchases	2,50,000	By Closing Stock	20,000
To Carriage inward	5,000		
To Productive Wages	10,000		
To Gross Profit c/d	1,95,000		
	5,20,000		5,20,000
To Administrative Expense	20,000	By Gross Profit b/d	1,95,000
To Selling and Distribution Expense	30,000		
To Loss due to Fire	10,000		
To Net Profit	1,35,000		
	1,95,000		1,95,000

[**Ans.** Operating ratio = 71 %; Cost of Goods sold = ₹ 3,05,000; Operating expenses = ₹ 50,000]

22. Calculate Return On Investment (ROI).

Capital ₹ 3,00,000, Reserves ₹ 50,000, Borrowed Loan ₹ 50,000, Profit earned ₹ 80,000.

[**Ans.** ROI = 20 %; Capital employed = ₹ 4,00,000]

23. Calculate Return On Capital Employed (ROCE).

Sales ₹ 8,00,000, Cost of goods sold ₹ 2,00,000, Operating expenses ₹ 1,00,000, Capital employed ₹ 8,00,000.

[**Ans.** ROCE = 62.5 %; Net profit before interest and tax = ₹ 5,00,000]

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10 COMPUTER IN ACCOUNTING

SYLLABUS

- **10.1** Introduction, Concept of Computerized Accounting System (CAS)
- **10.2** Features of Computerized Accounting System
- **10.3** Importance of Computerized Accounting System
- **10.4** Components of Computerized Accounting System
- **10.5** Comparision between Manual Accounting Process and Computerized Accounting System
- **10.6** Sourcing of Accounting Software
- **10.7** Legal vs Pirated Accounting Software

10.1 Introduction, Concept of Computerized Accounting System (CAS) :

In modern age, computer is becoming inseparable automation instrument for business as well as individual. Nowadays knowledge and operation of computer are considered as an essential thing. If a person does not know the use of computer, its usefulness is questionable. Today most of the entities – including small traders – prepare their accounts using computers. Because of computers, business entities can store, use and analyse the raw data as and when required. In modern days, it is difficult to find out a field in which computer is not used, which shows its importance.

Applications of computers for accounting has grown phenomenally. when accounts are maintained using computers raw data based on vouchers and other documents are entered into computer. Computer process such raw data. This process includes recording, storing, analysing and retrieving information. Computers can store information, analyse them and such information can be retrieved when required. However, they respond according to set of instructions given to it and such instructions are known as Programme or Software. Based on such software only, computer processes raw data and generates meaningful information or reports as and when required.

Computerized accounting system are connected through computer, network server or remote accessed device with internet. Every company or firm prepares their reports as per Generally Accepted Accounting Principles (GAPP).

10.2 Features of Computerized Accounting System :

(1) **Integrated date & Information :** Computerized Accounting System is developed and designed for all business activities like purchase, sales, finance, inventory, payroll and manufacturing which is user friendly, automated and integrated for such process. Dueto computerized accounting system, businessman keep their accounting records accurate, up-to-date and get information within no time. When Computerized Accounting is mixed with Management Information System (MIS) with multi-lingual and Data organization capabilities to support the company then all the business operations will be easy and cost effective.

(2) **Accuracy and Speed :** As per the need of business, Computerized Accouting has various templates and software due to which fast and accurate data entry and transactions operations are possible which generates various information and reports quickly and automatically.

(3) **Quick Decision Making :** Based on information and reports generated by Computerized Accounting System, the company or firm can plan its activities, can take quick decision and can access complete and critical information of the company.

(4) **Modern and Integrated :** Computerized Accouting System perform functions at much higher speed than the speed of human beings which saves time and other resources. If accounts are prepared with the help of computer. Trial balance and Final accounts can be derived at any point of time within fraction of seconds.

(5) **Immediate Availability of Books of Accounts :** Due to Computerized Accounting System, books and registers like Cash book, Purchase register, Sales register, Bank book, Account of Receivables and Payables are readily available at any point of time.

(6) **Security :** By keeping security control at various stage, data and information in Computerized Accouting System can be kept confidential and more secured. This kind of the security is not possible in the traditional accounting system.

(7) **Transparency :** For the business, greater transparency is possible in the day to day business operations due to Computerized Accounting System.

(8) **Grouping of Accounts :** In the Computerized Accouting System grouping of Accounts is easily possible. As per the business requirements, groups like Assets, Liabilities, Income, Expenditure, etc. and their subgroups can be derived as per convenience of user.

10.3 Importance of Computerized Accounting System :

Following are the points of importance of Computerized Accounting System for the various types of business organizations, firms, companies, etc.

(1) **Automation :** Compared to manual accounting calculations, all the calculations are automatically done by the accounting software with minimum time and without mistakes.

(2) **Multi-user Facilities :** Computerized Accounting System with multi-user facility enables business houses to access accounting information online or offline, inside or outside the office, simultaneously.

(3) **Accuracy :** Computers performs functions with high degree of accuracy. If hardware, software and humanware are proper, the Computerised Accouting System can assure of accurate outcome.

(4) **Speed :** Computerized Accounting software perform functions at much higher speed than the speed of human beings. If accounts are prepared with the help of computer, final accounts can be prepared in much lesser time and as per user requirements.

(5) **Reduction in cost :** Reduction in cost due to Computerized Accounting System is possible as less persons in less time can complete the work with more speed and more accuracy.

(6) **Systematic and up-to-date records :** Compterized Accounting System ensures systematic and up-to-date financial records of the business organization.

(7) **Huge Storage Capacity :** Manual accounting requires seperate books and registers to be maintained every year while in Computerized Accounting System records of many years can be stored in system / computer.

(8) **Compact :** The voluminous financial information can be stored in a compact way by the means of hard disk or external storage device which requires very little space.

(9) **Transferability / Sharing Information :** Business organization can share the financial information to interested parties through pen drive or through internet.

10.4 Components of Computerized Accounting System :

(a) Hardware : Hardware comprises of electronic equipments that includes computers, hard disks, monitors, printers and the network that connects with them. Most modern accouting system require a network, the system of electronic linkages which allows many computers to the main computer or server which stores the program and data. with right communication of hardware and software, one can perform all the work on site.

(b) Software : Software is a set of instructions and programme that can direct and perform desired task as required by users. Accounting software accepts, edits and stores transactions and data and generates reports as per the requirement.

(c) Personel : Personel / Humanware is the people who dealt with computer and software and play an imortant role in effective implementation of Computerized Accounting System.

Management of a Computerized Accounting System requires careful planning of data and access to the data. Security is sought by setting passwords, codes, etc. at different stage which gives them more safety of data.

10.4.1 Creation of Accounting Documents :

In accounting software generally the following components are used :

(a) Creation of Accounting Documents : With the help of computer software, different accounting documents like cash memos, vouchers, receipts, invoices, etc. can be created / prepared.

(b) Recording of Transactions : Day to day business transactions can be recorded through computerized accounting software which reduces the paper work.

(c) Preparation of Trial balance and Financial Statements : Based on the recorded business transactions, data is transferred into ledger through software and vouchers are also prepared. From these data, Final accounts are prepared automatically.

Transactions with missing data or other critical information are not accepted by the system.

10.5 Comparision between Manual Accounting Process and Computerized Accounting Process.

Basis of Difference	Manual Accounting	Computerized Accounting
(1) Meaning	Manual accounting is the system in which each business transactions are recorded in books of accounts like journal and ledger.	Computer accounting is the system in which transactions are recorded by using computers and accouting software for digital record.
(2) Calculation and total	In this system, all calculations are done manually. Here, balance of each accounts are to be found out by making total of debit and credit side	In this system, all calculations are done by computer system. Here, balance of each accounts are calculated / found automatically.
(3) Ledger Accounts	From the journal, recorded transactions have to be posted in different ledger accounts manually, so chances of mistake is always there.	Here, once a voucher is entered, it will automatically posted in the different ledger accounts without any mistake.

(4) Trial Balance	After posting, trial balance is to be prepared by taking balance of each ledger accounts.	Trial balance is automatically prepared using accounting software.
(5) Record of Adjustment Entries	Adjustment journal entries and its posting in the ledger accounts will be done manually one by one.	Adjustment entries are to be passed in the system, and posting in the ledger accounts will be done automatically.
(6) Financial Statements	Financial Statements are prepared manually by transferring trial balance figures carefully.	With the help of accounting software, such financial statements are automatically prepared after recording adjustment entries.
(7) Closing the books	After close of every year; in the beginning of year, opening balances are required to be carried forward in new books of accounts.	There is no need for recording opening balances as the balances are automatically carried forward to next year.

10.6 Sourcing of Accounting Software :

Before acquiring accounting software, expertise of people responsible in business for accounting work is to be considered, as people are responsible for accounting and not the computers.

The choice of the accounting software would depend upon the suitability to the organisation or firm, in terms of accounting and financial needs. From this perspective available accounting packages are classified into the following categories :

(a) Ready to use

(b) Customized

(c) Tailored

(d) Free and Open Source

(a) Ready to use : Ready to use software is suitable and developed for the need of organization or firm whose volume of accounting transactions are less. Ready to use software is cost effective and relatively easier to learn. Such software have many features and low level of secrecy. This kind of the software may not have linkage benefits.

(b) Customized : As per the need of the special requirements of customer, when accounting software is developed, it is known as Customized software, which is suitable for large and medium size businesses. Customization includes modification and addition to the software contents, provision for the specified number of users and other authentication, etc. The cost of training and installation and maintenance of customized software is relatively high. Customized software can be linked to the other infromation system with proper level of secrecy.

(c) Tailored : When software are designed and developed according to the need of a customer with multi-users facility and geographically scattered locations, it is known as Tailored software. This kind of the software form an important part of organizational Management Information System (MIS). The Secrecy and authenticity checks are most important things in such software. This software needs specialized training to the users and they offer high flexibility in terms of number of users.

(d) Free and Open Source : When small business or firm wants to use accounting software but do not have enough budget, then they try to get it from open source software available on the internet, which can be downloaded and installed from the websites.

10.7 Legal / Licensed vs Pirated Accounting Software : As per the business needs, one should select legal and open source accounting software from the available packages and applications in the market.

Legal Software : Full functional and safe software, can be updated as per statutory changes.

Pirated Software : Cracked software, nearly full functional, but illegal to use and risky from the data safety point of view, i.e. data can be corrupted.

Demo Software : Used for demo purpose with all major features but with a very few restrictions.

Voucher Types in Tally

Voucher Types	Its Uses
F4 (Contra)	● This voucher is used to deposit cash into the bank. ● Withdrawal of cash from the bank ● Transfer of fund i.e. cash from one Account to another. ● It is also used to transfer fund from one bank to another Bank.
F5 (Payment)	● All types of payments i.e. payment by cash and payment by cheque are recorded through this voucher. ● Credit items of a payment voucher shall be either Cash or Bank Account only. ● There can be two modes : **Single Entry Mode** or **Double Entry Mode.**
F6 (Receipt)	● There can be only two types of receipts, viz. Cash receipts and Bank receipts. ● Both these receipts has to be entered here. ● Debit item of Receipt Voucher will always be either Bank or Cash. ● Two modes of voucher are : **Single Entry Mode** or **Double Entry Mode.**
F7 (Journal)	● F7 (Journal) voucher is used for non – cash transactions, e.g., depreciation, provisions, transfer entries, purchase of fixed assets on credit etc. ● Journal voucher never to be used for credit sales or credit purchases.
F8 (Sales)	● This voucher i.e. F8 (Sales) voucher is used for cash sales as well as credit sales. ● There are two modes viz. **"As Invoice"** or **"As Voucher".** ● Write Party's A/c Name when ledger to be debited and write Cash in case of Cash Sales.
F9 (Purchase)	● This voucher type is used for Credit Purchases as well as Cash Purchases. ● There are two modes viz. **"As Invoice"** or **"As Voucher".** ● Party's A/c name is written when ledger to be credited.

EXERCISE

(A) Select the most appropriate alternatives from the following and rewrite the sentences :

*(1) (1) The primary document for recording all financial transactions in Tally is the ....

(a) Journal (b) Trial sheet (c) Voucher (d) File

(2) .... displays the balance day wise for a selected voucher type.

(a) Record book (b) Ledger book (c) Journal book (d) Day book

(3) Fixed Deposit A/c comes under .... group.
(a) Investments *(b) Current liability* *(c) Bank A/c* *(d) Current asset*

Ans. (1) Voucher (2) Day book (3) Investments

(2) (1) Computer, disk drives, monitors, printers, etc. are included in ....
(a) Software *(b) Hardware* *(c) Packages* *(d) Personel*

(2) .... is the set of programme that direct the computer to perform the desired task.
(a) Software *(b) Hardware* *(c) Packages* *(d) Personel*

(3) .... are critical to the success of any endeavor because people operate the system.
(a) Software *(b) Hardware* *(c) Packages* *(d) Personel*

(4) Customized software is prepared to meet .... of the customer.
(a) special requirement *(b) easiness* *(c) savings* *(d) basic need*

(5) Tailored Software is prepared for the .... size business.
(a) small *(b) medium* *(c) large* *(d) small and medium*

(6) .... application can be downloaded and install from the websites.
(a) Ready to use *(b) Customized* *(c) Tailored* *(d) Free and open source*

Ans. (1) Hardware (2) Software (3) Personel (4) special requirement (5) large (6) Free and Open source

(B) * (1) Give the word / term / phrase, which can substitute each of the following statements :

Statement	Ans. (word/phrase/term)
(1) The details of Bills receivable are maintained in this record.	Sundry Debtors
(2) Tally software is classified into this category.	Mercantile
(3) The short key used to save or accept the information.	Ctrl + A
(4) It is a damaged software, cracked, nearly fully functional.	Pirated Software
(5) The process by which all the calculations are automatically done by the accounting software.	Automation

(2)

Statement	Ans. (word/phrase/term)
(1) Software which is useful for small scale firms / business.	Ready to use Software
(2) Software prepared for multi-users and geographically scattered locations.	Tailored Software
(3) Details of bank trasactions are maintained in this book.	Bank book
(4) Software which is prepared for the business transaction automation.	Accounting Software
(5) Software used for demo purpose with all major features.	Demo Software
(6) Full functional, safe and legal software.	Legal Software

(C) * (1) State whether the following statements are True or False with reasons :

(1) Alt + D are the short key for delete voucher entry.

Ans. This statement is **True**.

To delete voucher entry, people use Alt + D key.

(2) In Tally F6 Function key is for payment voucher.

Ans. This statement is **False**.

In Tally F6 Function key is useful for receipt voucher.

(3) Legal software is fully functional software without any restriction.

Ans. This statement is **True**.

Base of the legal software are full functional, safe and legal, so one can use this kind of software without any hesitation and restriction.

(4) Salary Account comes under Indirect expenses.

Ans. This statement is **True**.

When the expenses are made for purchase of goods, and for manufacturing process, they are known as direct expense. Salary does not fall in that category and so it comes under indirect expense category.

(5) Accounting software may not be customized to meet the special requirement of the user.

Ans. This statement is **False**.

Customized Accounting software is prepared to meet the special requirement of the user which is not readily available in the market.

(2) **(1) In Tally, F7 key is for credit purchase or sales transactions.**

Ans. This statement is **False**.

In Tally F7 function key is for journal voucher and it should not be used for credit purchase or sales transactions.

(2) Pirated software is fully functional software.

Ans. This statement is **False**.

Pirated software is nearly fully functional software but its use is illegal and risky.

(3) Computerized Accounting is better than manual accounting.

Ans. This statement is **True**.

Due to computerized Accounting, firm or business can save time, expenses and get best output within no time which is not possible in manual accounting therefore computerized accounting is better than manual accounting.

(4) In the computerized accounting system, closing balances ae carried forward to next period, automatically.

Ans. This statement is **True**.

Just like manual accounting system, closing balances are not to be carried forward for next period, in computerized accouting system. As per the programme it is automatically carried forward.

(D) * (1) Answer in one sentence only :

(1) What is CAS ?

Ans. CAS means Computerized Accountig System which helps business firms to implement accounting process and makes it user friendly with automation.

(2) Write the steps to create ledger account in tally

Ans. Steps to create ledger account in tally are as follows :

(1) From Gateway of Tally Screen, click on accounts info.

(2) Path gateway to Tally – Accounts Info – Ledgers – Single ledger – Choses create.

(3) How to view reports in Tally ?

Ans. For viewing accounting reports in accounting software to click on report option and select the Display option.

(4) State the various types of voucher.

Ans. Following are the various voucher types :

(1) **F4** Contra voucher – For cash deposited in the bank and cash withdrawn from bank, Transfer from one cash A/c to other Cash A/c and Bank to Bank transfer

(2) **F5** Payment voucher – For all types of payments are recorded through this voucher type (Cash and Bank) Cash or Bank

(3) **F6** Receipt voucher – For Cash and Bank receipts

(4) **F7** Journal voucher – For non-cash transactions

(5) **F8** Sales voucher – For cash as well as credit sales

(6) **F9** Purchase voucher – For cash as well as credit purchase

(5) Write the steps to create a company.

Ans. Following are the steps to create a company :

(1) After entering into Accounting software Tally, double click on the option, create company, under company information. Then follow navigation path.

Gateway of Tally > Company Info > Create Company

(2) Fill the detail information in the company creation form, displayed on the screen – Company creation window.

(2) (1) **Write the full form of CAS, MIS and GAPP.**

Ans. Full form of : CAS – Computerized Accounting System.
MIS – Management Information System.
GAAP – Generally Accepted Accounting Principles.

(2) Write the components which form Computerized Accounting System.

Ans. Hardware, Software and company Personel are the components which form Computerized Accounting System.

(3) Write the names of equipments that are included in Hardware

Ans. Electronic equipment like computers, hard disks, monitors, printers and the network that connects with them, etc. are included in Hardware.

(4) In accounting software, generally which components are used ?

Ans. In accounting software generally following components are used :

(1) Creation of Accounting Documents

(2) Recording of Transaction.

(3) Preparation of Trial Balance and Financial Statements.

(5) State the names of Accounting Packages.

Ans. Ready to use, Customized, Tailored and Free and open source are the different names of Accouting Packages.

(6) State the names of Accounting Software.

Ans. Legal / Licensed software, Demo software and Pirated software are different accounting softwares.